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The Nazi Economic System

GERMANY'S MOBILIZATION FOR WAR

OTTO NATHAN

with the collaboration of Milton Fried

Duke University Press
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Preface

THE WORK on this volume was begun in the summer of 1940. When the United States entered upon her defense effort, it became obvious that many of the repercussions upon production, finance, and consumption would be quite similar to those experienced in other countries in comparable circumstances. It soon was apparent that little detailed knowledge of the techniques used in what was then the most gigantic war effort of modern times, that of Nazi Germany, was available. The political problems of German Fascism had been dealt with rather extensively in English literature, but there was a surprising lack of adequate information about the changes which had taken place in the German economic system under the impact of Fascism. Whatever was available, if at all reliable, was either too general or too sketchy to be of much use. When the Advisory Commission to the Council of National Defense in Washington asked me to investigate some of the economic aspects of German rearmament after 1933, they undoubtedly felt that the experience of a potential enemy might prove as valuable as that of a friendly nation.

The present volume grew out of this work for the Council of National Defense. I have not intended to give an account of the economic "achievements" of Nazi Germany, the quantities which she produced, the war materials which she accumulated, or the numerous other details which would be of importance in a statistical analysis of her economy. I have endeavored rather to examine, as fully as circumstances have permitted, the methods and techniques which Germany used in preparing for war. The question which I have asked throughout is not *what* has Germany accomplished, but *how* has she done it. The volume has thus developed into a study in Comparative Economics, an analysis of

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the first attempt in history to impose a co-ordinated system of economic planning upon a capitalist economy in which the institutions of private property and private profit were modified, but not abandoned. Attention is focused on the period from 1933 until the outbreak of war in Europe. These are the years during which Fascist Germany built up what I have called a military economy—over-all planning superimposed upon capitalism for military objectives. With the actual beginning of hostilities and with the shift from a military to a war economy, a completely new situation arose. While the present study is carried forward until the most recent time possible, wherever it was considered useful and instructive for the purpose of the work, the German economy after 1939 would necessitate a separate investigation which cannot adequately be made until after the end of the war. This is particularly true because of the occupation and economic "integration" of so many different countries into the Reich.

As the study developed, it became increasingly clear that the wealth of government regulations and decrees needed in the administration of a modern economy presented a difficult problem of exposition. A study of this kind must attempt to show how a capitalist economy operates after the traditional price and market mechanism has been abandoned, and how it is able to adjust itself to changing conditions and to specific objectives. Although the emphasis throughout the work has been on analyzing, rather than describing, the institutions and processes created to meet these problems, I have reluctantly come to the conclusion that a good many details, sometimes not very significant in themselves, were indispensable for a clear description of how a planned economy works. Too much confusion has hitherto been created by generalization and oversimplification.

The amount of factual material to be analyzed required much more time than was originally estimated. Unexpected difficulties were encountered in locating essential information. Since, in addition, my academic duties were such that much of the work had to be done during academic vacations, publication was postponed beyond the date originally contemplated. To avoid any further delay, the original plan of study was curtailed. One of the chapters on which work was not completed was devoted to the problem of accounting in the Nazi economy, the subject about which a monograph was recently published in Great Britain. The chapter on rationing was omitted, because rationing in Germany, except for unessential beginnings, was not started until after the outbreak of hostilities, and because it presents little that has not become familiar through American and British experience during the war.

The voluminous research upon which this study is based could not have been undertaken without outside help. I enjoyed assistance which I gratefully acknowledge for various chapters of the volume: for Chapters 4 and 6, from Mr. Samuel Lurié; for Chapter 5, from Mr. Henry C. Wallich; for Chapters 8 and 9, from Dr. Erich Rinner; and for Chapter 10, from Mr. Paul Baran. I owe a particular debt of gratitude to Dr. Fred Lewy, of the National Bureau of Economic Research, who not only did special research for Chapters 6 and 7, but who helped in the revision of the entire manuscript and in the making of the Index. I cannot express adequately my appreciation for his tireless devotion and his many contributions.

I must finally mention the special assistance which I enjoyed from two other gentlemen. One is Dean Calvin B. Hoover, of the Graduate School of Duke University, who was the first to suggest the study in 1940, and who, in spite of many other important duties, never lost interest in the progress of the work. His advice and help were indispensable. The other is my former student and later assistant, Mr. Milton Fried, now a candidate for the doctorate at Columbia University. Mr. Fried joined me at an early stage of the work and remained a faithful and indefatigable associate to the end. His great intellectual ability and his devoted work contributed so much to the final manuscript that it is a pleasure to acknowledge his collaboration on the title page of the present volume.

The Rockefeller Foundation made the research work possible through a grant to Duke University; and the Faculty Fellowship Fund of Vassar College made a grant to prepare the manuscript and Index for publication. I am grateful to both.

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The *Quarterly Journal of Economics* and the National Bureau of Economic Research have kindly given me permission to incorporate into this volume material which I prepared originally for publication by them.

O. N.

Vassar College
December 25, 1943.

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THE NAZI ECONOMIC SYSTEM

Chapter 1

The Impact of Fascism

The Victory of Fascism in Germany early in 1933 was a victory of forces united by two major political objectives: the exploitation of fanatical nationalism in pursuit of an aggressive, imperialistic foreign policy, and the maintenance and, if possible, extension of the power and privileges that go hand in hand with the extreme maldistribution of wealth and income in capitalist society. It was a victory of counterrevolution: a victory of those groups in German society which could hope to regain their former political and economic eminence only by destroying the main achievements of the revolution of 1918.

To the economic system of Germany, Fascism meant three major changes. The market mechanism gave way to a co-ordinated system of government intervention. The free and independent organizations which labor had created to strengthen its bargaining position were destroyed. Political democracy, an institution of great economic consequence, especially in a country like Germany where government had always been very active in economic life, was abolished and replaced by a ruthless political dictatorship. Labor organizations and political democracy were quickly destroyed as soon as the Nazis were entrenched, while "planning" only gradually replaced the market mechanism inherited from the Weimar Republic. As long as idle men and resources were available, the Nazi government did not have to insist upon intricate control of the economic system. It could accomplish its objectives with a few bold strokes directed at agriculture, at the organization of the economy, and at the banking institutions. Gradually, however, as shortages of men and material became increasingly acute, every branch of the economy was made subject to government control.

For approximately two centuries before the advent of Fascism the Western Hemisphere had been dominated by a system of private property, entrepreneurial freedom, and comparatively free competition in which the price mechanism functioned as the central economic institution. With the passage of time, this system underwent numerous modifications. One of the major changes was the gradual disappearance of free competition as capital was concentrated and institutions were developed to interfere with the functioning of the free market. By the time the Nazis took over, cartels, syndicates, pools, trade associations, informal arrangements for the restraint of trade, and trade unions were as much a part of the German economic system as the price mechanism which these institutions were changing. Each of these particular groups attempted to increase its bargaining strength at the expense of others. Though the market mechanism continued to mediate between competing groups, the market itself lost its atomistic character. At the same time the role of the State in economic life was changing. According to the theory of free, competitive capitalism government activity was to be restricted to protecting life, property, freedom of trade, free contract, and free competition. As it turned out, the State paid lip service to the doctrine of laissez faire, but in practice was forced, even before 1933, to interfere with the various freedoms of the entrepreneur in order to counteract the abuses which those freedoms permitted. Where evils attended the accumulation of monopolistic or semimonopolistic power in the hands of a few, or the operation of the market permitted unemployment and income conditions which endangered the health and efficiency of large sections of the population, the State stepped in to control, to regulate, and to influence economic activity in other ways.

Government interference with the market was sporadic and desultory. Legislation was usually enacted under pressure of necessity and each problem was treated as an isolated difficulty. Characteristic of all the interferences by the State was the fact that each aimed at a specific purpose. There was no single objective to integrate or co-ordinate them. The only link between one action and another was the desire of the government to facilitate the operation of the economy, to protect the "general welfare," and to preserve the existing economic and political structure.

In spite of the decline of competition and the growth of government intervention the autonomous price mechanism continued to function as the co-ordinator of the economic activity of individuals seeking profits. What the economy produced continued to be the cumulative result of innumerable decisions, made by individuals comparatively ignorant of the decisions of others which they tried to anticipate. Even where the government owned the enterprise, or fixed prices and rates, its decisions had to be made in accordance with the many other prices determined by the market mechanism. Out of this mass of activity, never integrated by any predetermined objective, emerged an end product never conceived in its totality.

With the Nazis in power in Germany, a unifying principle of control was brought to bear upon the economic system. They had a predetermined purpose: the creation of a war machine. In subordinating the economic system to that objective they substituted conscious, over-all direction for the autonomy of the market mechanism. A step in that direction had already been taken before the Nazis seized power when the foreign exchange control system imposed a superstructure of government control upon the economy. At that time the necessity of using foreign exchange as economically as possible was the unifying principle of State action. When the Nazis took over, they used the system of foreign exchange control as a point of departure for a much more highly developed system of economic regulation dominated by the requirements of their military machine.

The net result was a planned economy, but one wholly unlike the democratically planned economies that have been proposed for Great Britain and the United States, and different from the completely organized and state-owned economy of the Soviet Union. It was a totalitarian system of government control within the framework of private property and private profit. It maintained private enterprise and provided profit incentives as spurs to efficient management. But the traditional freedom of the entrepreneur was narrowly circumscribed. A vast network of organizations was erected to embrace individuals, corporations, manufacturers, farmers, dealers, small business and large business—in short, every factor of production, distribution, and consumption in the country. By dominating this organizational structure, through which orders could be issued to every businessman in the country, large and small, and by insisting upon strict obedience from all, the government obtained complete control over the economy without actually owning the means of production. The extent to which the government made use of this extensive machinery is a matter for conjecture. We can be sure that it did not employ the machinery in every branch of the economy at all times or to the same extent and that the dependence upon it increased as hostilities became imminent. Another matter that must remain obscure for the time being is the particular agency in which the plans for the various industries and sectors of the economy were co-ordinated. Such an agency certainly existed, possibly in the high command of the armed forces itself or in the Office of the Four Year Plan, but there is no explicit reference to it in the literature.

The literature of the Nazis and their official statements abound with paeans of praise for free enterprise. There is a general reluctance on their part to refer to the Nazi economic system as a planned economy. Instead, it is called a "directed" or "guided" economy, ostensibly to emphasize that enterprise remains free and the State only directs and guides. Private enterprise and the private entrepreneur are glorified, while ridicule is heaped upon an economy controlled and administered in the manner of Soviet Russia.[1] The government's official attitude was set down in its first declaration to the Reichstag when it promised to "safeguard the interests of the German people; in principle, not through the erection of an economic bureaucracy of the State, but through vigorous cultivation of private initiative and through recognition of property rights."[2] What this meant, in practice, the body of our work will disclose. Where the government was admittedly "guiding," the Nazi literature frequently refers to "Marktordnung," a deliberately obscure German word that is open to a wide variety of interpretations. Most of the discussion in which the word appears is so general that the meaning and significance of the concept remain unintelligible. Often there is mention of a "Marktordnung" for specific industries, suggesting that it had something to do with adjusting production in individual industries to the over-all decisions of the supreme "planning" authorities. In any case, the "Marktordnung" was apparently administered by the hierarchy of entrepreneurial organizations erected to enable the government to control the economy.

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[1] For an example of such statements, see Hermann Bente, "Gestaltung und Gestaltungswandel der Volkswirtschaft," *Zeitschrift für die gesamte Staatswissenschaft*, XCV (1934), 91: "To nationalize the exceedingly complicated organism which constitutes the modern economy and to have it regulated through a bureaucratic administration instead of through free enterprise, would mean to substitute 'organized chaos' *(Unwirtschaft)* for an 'unorganized' economy."

[2] A. Pietzsch, "Die Organisation der gewerblichen Wirtschaft," *Das Dritte Reich im Aufbau*, 1939, Pt. I, p. 226.

A feature as characteristic of the Nazi economy as the destruction of the autonomy of the price mechanism, was the abolition of every vestige of industrial democracy inherited from earlier regimes. Labor was deprived of the right to influence the distribution of income, or to share in the determination of the conditions of work. In the early stages of capitalism, it will be recalled, the worker, bargaining as an individual, had practically no influence on the wage contract. Without control over tools, workshop or raw materials, accustomed to work not to bargain, uninformed, unable to wait because he could not live unless he sold his labor, the worker was largely at the mercy of the entrepreneur. Competition among workers, especially in slack times, only accentuated his bargaining weakness. To correct the abuses countenanced by this maldistribution of bargaining power, voluntary organizations of workmen had sprung up, exerting first economic and then political pressure in the interest of the laborer. Within the framework of political democracy, workers everywhere fashioned instruments which strengthened their position in the market and influenced the distribution of national income. The growing economic and political strength of the labor movement has been one of the most significant phenomena of modern times. One of the best illustrations of this is the labor movement of pre-Nazi Germany. There, organization and collective action had largely superseded competition among wage and salary earners; and, thanks to the political possibilities of the democratic system, support could be mustered behind labor legislation designed to improve the working and living conditions of the laboring class. As time passed, the aspirations and growing strength of organized labor threatened to become a serious challenge to the continued economic and political supremacy of the entrepreneurial class.

With the triumph of Fascism labor suffered its most severe setback of modern times. Every one of its free and independent organizations was destroyed. The right of voluntary association was abolished. Social victories that had taken decades to win were wiped out by a few arbitrary decrees. Once again the worker was without collective strength, but this time without even the nominal legal and economic freedom of early capitalism—freedom which held out, if nothing else, the promise of possible amelioration. One of the earliest acts of the Nazis was to outlaw not only collective bargaining by organized labor groups but also individual bargaining between a single worker and a single employer. The worker became an instrument of the State with duties but no rights. He could no longer organize to defend his interests or choose his own representatives. He could not even influence those in a position to protect him and to make decisions of vital concern to him. No other group fared so badly. Farmers and industrial entrepreneurs had organizations of their own, organizations for "self-government" it was claimed. Even though the State carefully controlled these organizations, their very existence gave their members access to those who were making decisions. The entrepreneurial organizations were led by entrepreneurs who were assisted by a board of entrepreneurs. Although it is difficult for an outsider to evaluate the significance of these associations of entrepreneurs, the available evidence suggests that they performed important functions. They were certainly consulted on matters of policy, and they undoubtedly administered many of the policies which emerged. Individual entrepreneurs—subject as they were to government control—operated within a wide area of discretion. The workers, on the other hand, were the only large group in the economy without an organization of their own. They had no voice and were compelled to accept the wages and conditions of work imposed by the entrepreneur or the Trustees of Labor. It is this that is the distinguishing characteristic of Nazism, not the level of real wages or the benefits paid by the social insurance system—important as these things are in the lives of workers. Fascism transformed the working class into an unorganized and unorganizable mass, as powerless as a group as were the individuals who composed it; a mass unable to formulate its own objectives or crystallize its common will, incapable of acting as a pressure group, or of educating itself to fight for a better life; a huge amorphous mass easy to manipulate.

These changes in labor's situation are by no means purely economic phenomena. Although this book is primarily concerned with the German economy, it is impossible to give a complete picture of the changes wrought by Fascism in the German economic system without considering the political development. For the nature of the political system always has far-reaching economic consequences, especially when a State takes it upon itself to interfere in the economic sphere. We do not intend to discuss at any length the consequences for the economy of the political organization of Fascism. The task is difficult and lies beyond the scope of this volume. But we do want to emphasize that in Nazi Germany as elsewhere the political organization of society is an important datum for the economist.

The political climate in which competitive capitalism was supposed to flourish was one in which the State remained economically neutral. "Under the system of natural liberty," wrote Adam Smith, "every man as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest in his own way and to bring both his industry and capital into competition with those of any other man or order of men. The sovereign is completely discharged from . . . the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interests of Society." National defense, the administration of justice, and the maintenance of a legal structure within which competition and pursuit of private gain could direct the factors of production, were the sole functions assigned to the State. This system of natural liberty never actually existed in pure form. The approximation of it which flourished for a while in the Western world was abandoned when the entrepreneur first, and later labor, discovered the advantages of monopoly, and when the State began to play an active role in the economy. The activities of the State in the economic sphere had many causes, but no doubt many were a direct outgrowth of the development of political democracy. Under the system of political democracy the masses of people had an opportunity to insist upon an improvement in their material and social welfare. Outlets were provided for their dissatisfaction and unrest. Different groups could organize freely to press home their divergent interests. Although in practice the mass of men have been less articulate than the groups with economic power, the very freedom of the masses to organize, to discuss their problems openly, to elect representatives at regular intervals, has meant the opportunity to wrest concessions from those directing the machinery of the State. If political democracy has been no panacea, if it has tolerated and still tolerates abuses, if it has long been wed to economic oligarchy, it has nevertheless made possible free inquiry, public criticism of government action, voluntary association, and many other instruments which not only afford individuals and groups some protection from arbitrary State power, but also invite the people to participate directly in the control of their political and economic destiny.

The victory of Fascism brought about a complete change in the political organization of Germany. Democracy was abolished. Supreme power was vested in the government of the Reich, represented by the Chancellor. All other authority was delegated from this central seat of power. Executive orders, decrees, ordinances, and laws were issued by government agencies responsible only to the Führer. Obedience to leadership was made compulsory. Public discussion was taboo. Every instrument of public opinion—press, radio, public speeches, churches, art, literature, education—was controlled and directed by the government. Democracy, the Nazis realized, was a threat to their entire political and economic program. They wanted war. They wanted to revamp the economy for eventual struggle. But under a system of political democracy they could not have gained national support for an aggressive war. Any free discussion of the issues involved would have created an impossible international situation and would have meant certain repudiation at the polls. Rather than risk that, they conspired to establish a ruthless political dictatorship, using terror to silence dissent and to command obedience.

Although we refer throughout this book to the power and activities of the "government," we shall make no attempt to analyze the government's exact composition. Such an analysis is beset with extreme difficulties. Only someone who has had an opportunity to observe the actual functioning of the apparatus of government in Germany since 1933 and who has had access to those in charge of political and economic operations, is in a position to make an adequate analysis of the composition of the government, and of the relative strength of the factions of which it is compounded. Our study has been made within limitations imposed by the necessity of working from outside the country, without opportunity for personal observation, and without access to the detailed, independent information available to those functioning in the Nazi bureaucracy itself. On the basis of all the information available to us, including the reports of visitors and eyewitnesses, we should say that, regardless of the exact composition of the government, its major policies were in harmony with the basic philosophy and objectives of the large capital-owning classes in industry and agriculture, the upper strata of the armed services, and the bureaucracy in public administration. These groups had their own disagreements, and undoubtedly resented some of the restrictions imposed upon them. Nevertheless, they saw eye to eye on the main objective of economic policy—building a military economy in preparation for territorial expansion, and that within the framework of a political and economic system in which the masses of the population had no voice.

The following chapters discuss in detail the various organizations and techniques used by Nazi Germany to accomplish its ends: the structure developed to co-ordinate the activities of industry and agriculture for the purposes of a military economy; the functions performed by old and new monopolistic industrial organizations in that structure; the changes in the monetary and banking system of the country and the methods used to incorporate it into the military economy; the complicated techniques for controlling production directly; the machinery used in allocating labor and in determining the conditions of work; the new system of "prices" that replaced the autonomous price mechanism of traditional capitalism; the methods employed by the military colossus to provide itself with the funds necessary for expansion; and, finally, the effect of the program of military expansion upon the standards of consumption of the people just before the outbreak of war.

Chapter 2

The Institutions Regulating Industry

THE CHARACTER OF THE NAZI ORGANIZATION, 13. THE ENTREPRENEURIAL ASSOCIATIONS, 15—The Pre-Nazi Organization, 15; The Development under the Nazis, 19; The Functional Groups, 20; The Territorial Chambers, 23; Joint Organization of Functional and Territorial Associations, 24; The Administrative Machinery of Groups and Chambers, 25; The Functions of the Entrepreneurial Associations, 30; The Organization of Handicraft, 39. THE STRUCTURE OF GOVERNMENT AGENCIES FOR ECONOMIC REGULATION, 41—Government Regulatory Machinery before the Outbreak of War, 42; The Department of Economics, 42; The Office of the Four Year Plan, 43; The War Economy Division of the Army, 46; Reich Agencies (Reichsstellen), 47; Changes in the Government Regulatory Machinery after the Outbreak of War, 49.

THE CHARACTER OF THE NAZI ORGANIZATION

THE MACHINERY for regulating industry[1] which replaced the traditional market mechanism was not an entirely new creation fashioned at a single stroke in accordance with some prearranged Nazi plan. It was constructed gradually, over a period of years. It had for its foundation the highly developed industrial organization which was in existence when the Nazis came to power. It was designed eventually to meet the demands of a nation girding for war. What distinguishes the development of this military economy[2] is the fact that it was projected while the country was officially at peace, and was therefore able to take advantage of numerous peacetime possibilities. For example, it could exploit economic and political relations with the rest of the world to its own military advantage. The inherent logic of the development of such an economy forced upon the government an ever-increasing measure of economic control, economic supervision, and economic regulation.[3]

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[1] "Industry" is used here in a narrower sense than it sometimes is in American economic literature. It includes manufacturing industries and mining, trade, banking, insurance, gas, water, and electric industry, tourist industry, and handicraft; it does not include agriculture and transportation. "Industry" in the sense used here includes all those parts of the economy for whose regulation the Department of Economics was responsible.

[2] "Military economy" is used here to designate the economy built up in the prewar period before September, 1939; it seems a more adequate translation for the German *Wehrwirtschaft* than either "defense economy" or "preparedness economy." These latter translations are frequently used in the pertinent literature.

[3] It is interesting to note that Eberhard Barth, who, as a high official in the Depart-

The machinery employed by the Nazi government in directing economic activity was an ingenious combination of "self-government" of entrepreneurial organizations, and of State regimentation. During the years, the emphasis shifted from the former to the latter. In the earlier period, the government could limit its activity to issuing general directions for controlling production and distribution. But as the pressure of war preparation mounted, the government was compelled to exercise more rigid and detailed control over economic activities. Official documents reveal this curious amalgam of "regimented" and "self-governing" industry. On the one hand, there is the obvious attempt to encourage the entrepreneur, to give him a sense of his importance to the economy and to keep him believing that he had not lost his economic independence. On the other, it is made clear, time and time again, that the State has assumed "leadership" in the economy. In an address before an "Economic Chamber" in the middle of 1936 Hjalmar Schacht, who was then serving as Secretary of the Department of Economics and as President of the Central Bank (the Reichsbank), and who in the conduct of economic policy was at that time probably the most influential person in the government,publicly called attention to the changes which had taken place to date in the German economy: "To me as Secretary of the Department of Economics, the independent organization of industry is indispensable. We need such an instrument both as an agency for passing our orders on to the economy and as an agency for receiving suggestions made to the government. Since our new State claims for itself leadership over the economy, it needs an instrument through which its leadership can become a reality."[4] Similarly, it was decreed by the Department of Economics on November 12, 1936, that the various branches of the entrepreneurial organizations would not only have to attend to their own duties but would have to carry through the requests which the government would make from

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ment of Economics, had a great deal to do with the building-up of the new organizational structure of the economy, uses many military expressions to describe the requirements which the new setup was supposed to satisfy: "The economy must be, so to speak, an extremely mobile troop whose organization is clear and easily understood, and which is able to carry through all tactical maneuvers which may become necessary in executing economic policies" ("Der fachliche und regionale Aufbau der gewerblichen Wirtschaft," *Jahrbuch der Nationalsozialistischen Wirtschaft*, Stuttgart, 1937, p. 264).

[4] *Handbuch des Aufbaus der gewerblichen Wirtschaft* (Leipzig, 1937), III, 1.

time to time. The Department hoped, it went on to assert, that in the future it could concentrate on laying down general rules governing economic policy, and that it would only have to supervise the execution of its instructions by the entrepreneurial organizations.[5]

Since the "regulated" economy was administered partly through government agencies and partly through organizations of entrepreneurs over which the government had complete control, government agencies and entrepreneurial organizations had to expand the existing institutions and establish new ones. We shall deal first with the mechanism of the entrepreneurial organizations, "The Organization of Industry" ("Die Organisation der gewerblichen Wirtschaft"), which consisted of functional and territorial bodies.

THE ENTREPRENEURIAL ASSOCIATIONS

The Pre-Nazi Organization. It was customary Nazi practice to utilize already existing organizational and administrative machinery wherever possible. In the case of the entrepreneurial machinery they decided to adapt to their purposes an industrial organization which had its origin in the first half of the nineteenth century, and which had been greatly developed after the first World War. When the Nazis seized control, this organization was operating on both a territorial and functional basis.

The territorial organizational structure of all industrial, commercial, and handicraft enterprises had been highly developed under the Weimar Republic. Made up of the Chambers of Industry and Commerce (Industrie-und Handelskammern) and the Chambers of Handicraft (Handwerkskammern), it was supervised by the government, was democratic, and formally, at least, was based on equal rights for all members regardless of the size or nature of the enterprises they controlled. Board members of the Chambers were elected by universal, equal, and secret vote of all enterprises listed in the commercial registry. According to the laws under which the Chambers of Industry and Commerce functioned, each chamber was to represent the common interests of all the industrial and commercial enterprises in a given area. The Chambers were institutions of public law,[5a] their functionaries enjoyed public servant status, and their administrative expenses came out of regular compulsory dues levied on the membership. Their tasks were many and varied. They represented the business interests of their districts in negotiations with municipal, state, and federal governments; in fact, they frequently functioned as a business lobby. They appeared as experts before courts, parliamentary committees, and investigations; they organized arbitration commissions and established trade schools; they advised the businessmen in their districts on a host of matters including taxation, export and import problems, and competitive conditions for individual industries in domestic and foreign markets. To increase their influence and to pool their facilities, the Chambers organized themselves into regional and national associations. As early as 1861 a federation of the Chambers of Industry and Commerce was organized on a national basis (called, since 1918, Deutscher Industrie-und Handelstag). On April 1, 1933, the 112 individual Chambers which then existed all belonged to this National Federation.[6] Unlike individual Chambers, the regional associations and the National Federation were strictly private organizations having no public status.

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[5] *Ibid.*, p. 3.

The organization of the Chambers of Handicraft was a little different. The factory code *(Reichsgewerbeordnung)*[7] specified (Section 103) that Chambers of Handicraft were to be organized wherever a state government considered it advisable. They were to have public status and far-reaching authority with regard to the regulation of apprenticeships, the examination of apprentices, and the safeguarding of the interests of their membership, which included butchers, shoemakers, bakers, tailors, and carpenters. In 1922 the Chambers of Handicraft were legally co-ordinated into a national federation (Deutscher Handwerk-und Gewerbekammertag). In contrast to the national organization of the Chambers of Industry and Commerce, this federation was an institution of public law. There were sixty-seven Chambers of Handicraft on October 1, 1932.[8]

[5a] "Institution of public law" is the translation used here and many times below for the German "Körperschaft des öffentlichen Rechts," which is a corporate agency established not under the general law of private corporations, but under a special statute drawn with a view to the public functions of the agency in question.

[6] *Statistisches Jahrbuch für das Deutsche Reich*, LII (1933), 542.

[7] *Gewerbeordnung mit Handwerks-und Einzelhandelsrecht* (Guttentagsche Sammlung Deutscher Reichsgesetze Nr 211, Berlin, 1937).

The territorial organizations were supplemented by much more powerful functional bodies representing the interests of specialized entrepreneurial groups. Comparable to trade associations in the United States, all these functional organizations were usually called Unternehmerverbände—entrepreneurial associations—and had roots back in the middle of the nineteenth century. By 1930 hundreds of them, most of which had originated in the two decades prior to the first World War, had developed in every branch of industry on a country-wide basis; but it was not unusual to find them organized for some special district or territory. Unlike the individual territorial chambers, they were private bodies enjoying a large membership in spite of the fact that no legal enactment compelled entrepreneurs to join. Their numerical strength must be understood in terms of the benefits of membership and the pressure of big business.[9]

The advantages of co-ordination sooner or later drew the functional entrepreneurial associations in each industrial branch into powerful central bodies: the National Union of German Industry—for the manufacturing industries and mining—, the Central Union of German Banking, the National Union of German Wholesale and Export Trade, the Central Association of Retail Trade, the National Union of Transportation, the National Union of Private Insurance, the National Union of Agriculture, the National Union of Handicraft, and various National Employers Associations. No information is available concerning the size of membership in the various central bodies, or the number of employees in the enterprises represented by them.[10] In 1920 all the national and central bodies were further co-ordinated into a superassociation on a national basis, the Central Committee of Entrepreneurial Associations (Zentralausschuss der Unternehmerverbände), created "for the purpose of protecting the common interests of German entrepreneurs and in order to defend them against all attacks."[11] A loose organization that met only for special purposes, it could not make its decisions binding upon all its members.

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[8] *Statistisches Jahrbuch für das Deutsche Reich*, LII (1933), 546.

[9] The size of membership varied from association to association. About 75 per cent of all retail traders belonged to the Association for Retail Trade (see Eberhard Barth, *Wesen und Aufgaben der Organisation der gewerblichen Wirtschaft*, Berlin, 1939, p. 29). Hereinafter referred to as Barth, *Wesen und Aufgaben.*

[10] *Jahrbuch der Berufsverbände im Deutschen Reich*, 52. Sonderheft zum Reichsarbeitsblatt, ed. Reichsarbeitsministerium, Ausgabe 1930, p. 8*.

By far the most influential member of the Central Committee was the National Union of German Industry (Reichsverband der Deutschen Industrie),[12] which had come into being in 1919 through an amalgamation of two national bodies (one created in 1876 and representing heavy industries; the other created in 1895 and representing lighter industries). Its effectiveness was due in no small measure to the fact that its leadership was usually in the hands of the most powerful industrial enterprises in Germany. Throughout its history, from 1919 to 1933, Presidents of the National Union were recruited from among the chief administrators of Krupp and the I. G. Farbenindustrie. All individual functional associations in manufacturing and mining, including those organized on a territorial basis, were members of the National Union, which in 1930 included 28 special industrial divisions (Fachgruppen), and 1,320 industrial associations (Fachverbände), many of which were members of the industrial divisions. In addition, 21 functional associations for specific regional territories, 87 functional associations of a local character, 72 Chambers of Industry and Commerce, and many individual firms belonged to it. Its most important divisions (Fachgruppen) were mining, quarrying, iron and metal production, iron- and metal-manufacturing industries, machines, electrical industries, chemistry, leather, rubber, textiles, paper, wood, food, clothing, building, and transportation. The subsidiary industrial associations (Fachverbände) were organized according to widely varying principles and constituted an extremely ramified structure, minutely subdivided into numerous subassociations.

The National Union of German Industry functioned through a Board of Presidents having between 7 and 30 members, a Board of Directors having between 30 and 80 members, an executive committee consisting of 140 representatives of the Industrial Divisions and 60 other members, and meetings of the entire membership. Its objective, described by its constitution, was as follows: ". . . to represent and aid German Industry in all mat-

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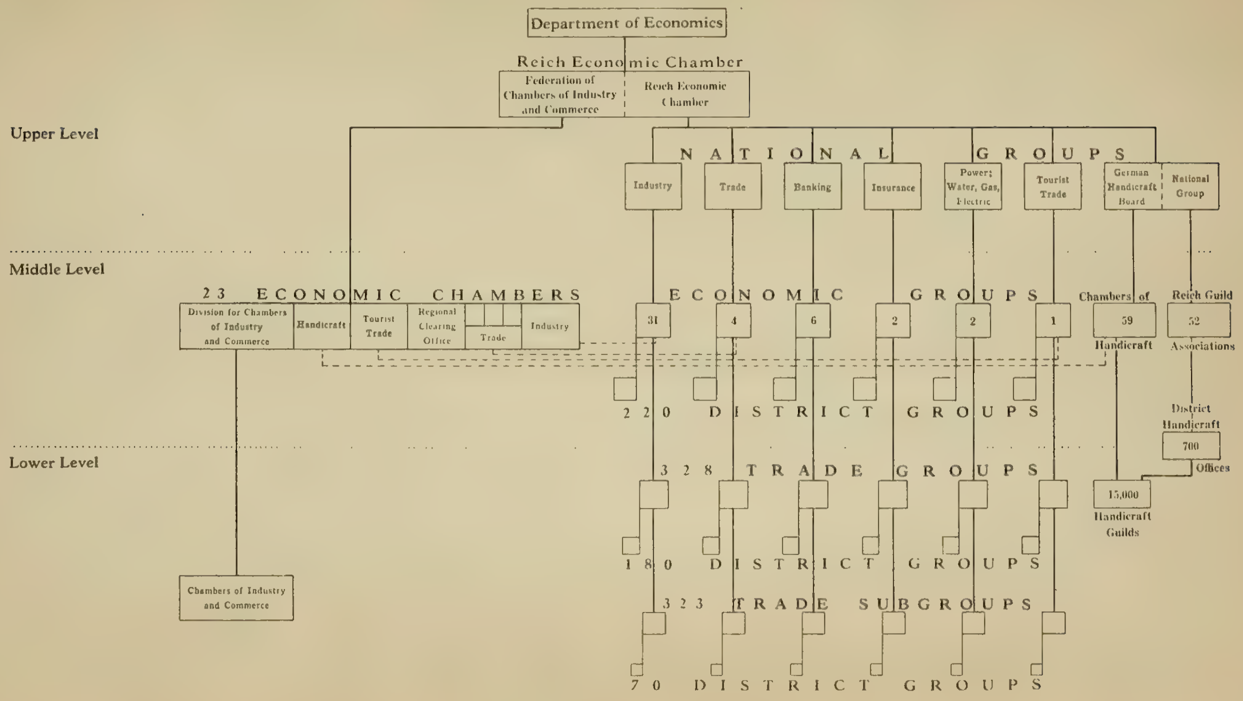
[11] *Handwörterbuch der Staatswissenschaften* (4th ed., 1928), VIII, 505.

[12] Kurt Wiedenfeld, *Gewerbepolitik* (Berlin, 1927), p. 170.

INSTITUTIONS REGULATING INDUSTRY

AUGUST, 1939


Department of Economics
Reich Economic Chamber
Federation of Chambers of Industry and Commerce
Reich Economic Chamber
Upper Level
Middle Level
Lower Level
NATIONAL GROUPS
Industry
Trade
Banking
Insurance
Power; Water, Gas, Electric
Tourist Trade
German Handicraft Board
National Group
23 ECONOMIC CHAMBERS
Division for Chambers of Industry and Commerce
Handicraft
Tourist Trade
Regional Clearing Office
Trade
Industry
ECONOMIC GROUPS
31
4
6
2
2
1
Chambers of Handicraft
59
Reich Guild Associations
52
220 DISTRICT GROUPS
District Handicraft Offices
700
328 TRADE GROUPS
15,000 Handicraft Guilds
180 DISTRICT GROUPS
323 TRADE SUBGROUPS
70 DISTRICT GROUPS
Chambers of Industry and Commerce

ters, concerning the economy and economic policy, in close co-operation with the Union of German Employers Associations which represents German entrepreneurs in all social problems and in industrial relations."[13] In practice this meant a wide variety of activities. The National Union, for example, was the institutionalized lobby of German Industry, and lobbying may very well have been the most important service that it rendered to its members. Some of its other services are suggested by mentioning its cartel department, which developed model-and-master cartel agreements and represented cartel interests before the Cartel Court, its taxation department, its foreign trade department, and its Institute for Foreign Law. The constitution of the National Union indicates that labor relations did not fall within its jurisdiction. Indeed, neither the Union itself nor any of its individual functional members concerned themselves with labor problems. As the constitution makes clear, these problems were handled by special employers' associations created for the purpose. There were twenty-nine hundred of them, all members of the national body known as the Union of German Employers Associations (Vereinigung der Deutschen Arbeitgeberverbände).

The Development under the Nazis. The machinery set up by the Nazi government maintained the dual functional and territorial structure. The functional organizations were called Groups (Gruppen instead of the previous Fachverbände); the territorial organizations continued to be known as Chambers (Kammern). But the new government, finding the pre-1933 semipublic, semiprivate, organizational structure unequal to the task of providing for the transmission and execution of its official orders and instructions, overhauled and elaborated the entire machinery, and finally developed a much more systematic and better co-ordinated organization.[14] Despite numerous and detailed changes in the formal machinery, there were unmistakable resemblances between the new territorial organizations and the old Chambers of Industry, Commerce, and Handicraft and between the new functional structure and the old Central Committee of Entrepreneurial Associations. The formal structural changes, however, were much less significant than the constitutional changes, and those which took place in the purposes of the various organizations.[15]

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[13] *Handwörterbuch der Staatswissenschaften,* p. 502.

[14] The organizational change was accomplished through the following enactments: The Law concerning the Preliminary Structure of German Handicraft of Nov. 29, 1933 (Gesetz über den vorläufigen Aufbau des deutschen Handwerks) [*Reichsgesetzblatt,* 1933, I, 1015]; the First, Second, and Third Decrees concerning the Preliminary Structure of German Handicraft of June 15, 1934, and January 18, 1935 (Erste, Zweite, und Dritte Verordnung über den vorläufigen Aufbau des deutschen Handwerks) [*Reichsgesetzblatt,* 1934, I, 493, and 1935, I, 14-15]; the Law for the Preparation of the Organic Structure of German Industry of Feb. 27, 1934 (Gesetz zur Vorbereitung des organischen Aufbaus der deutschen Wirtschaft) [*Reichsgesetzblatt,* 1934, I, 185]; the First Administrative Rules for the Preparation of the Organic Structure of German Industry of Nov. 27, 1934 (Erste Verordnung zur

The basic changes wrought by the Nazis provided for control of the entrepreneurial agencies by the Reich government through the "leadership principle," for compulsory membership in Groups and Chambers for all entrepreneurs, and for a revised hierarchical structure within both the functional and territorial organizations. The new hierarchy was ordered on three main levels resembling the major administrative subdivisions of government: the national level, analogous to the central government; the middle level, analogous to the division of the Reich into states; the lower level, analogous to the division into counties and larger cities.[16]

1. *The Functional Groups.* The functional hierarchy consisted of (a) National Groups (Reichsgruppen), (b) Economic Groups (Wirtschaftsgruppen), and (c) Trade Groups (Fachgruppen). On the upper level were seven National Groups,[17] one each for manufacturing, trade, banking, insurance, power (water, gas, and electric), tourist trade, and handi-

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Durchführung des Gesetzes zur Vorbereitung des Aufbaus der deutschen Wirtschaft) [*Reichsgesetzblatt,* 1934, I, 1193]; the Decree concerning Chambers of Industry and Commerce of Aug. 20, 1934 (Verordnung über die Industrie-und Handelskammern) [*Reichsgesetzblatt,* 1934, I, 790]; the Decree concerning the Reform of the Organization of Industry of July 7, 1936 (Erlass betreffend die Reform der Organisation der gewerblichen Wirtschaft) [*Ministerialblatt für Wirtschaft,* Feb. 3, 1937, pp. 29 ff.], in which the Department of Economics attempted to simplify and unify the administration of the entire industrial organization.

[15] Albert Pietzsch, the Chairman of the Reich Economic Chamber (*Die Organisation der gewerblichen Wirtschaft,* Berlin, 1938, p. 9), wrote: "In establishing the self-governing Organization of Industry, the National Socialist State took over many existing institutions which could well be used for the new economic structure. It was only necessary to instill a new spirit into these organizations, a matter which frequently necessitated a change in personalities and purposes."

[16] The territorial agencies on the lower level were sometimes further subdivided.

[17] In addition, there was one more National Group for the Transportation Industry which was subdivided into seven Economic Groups (Reichsverkehrsgruppen) and many Trade Groups, Trade Subgroups, and District Groups. Organization and administration of the National Group for the Transportation Industry were about the same as in all other National Groups. Final authority, however, was vested in the Department of Transportation (for further details, see *Reichsgesetzblatt,* 1935, I, 1169).

craft.[18] Subordinate to each of these National Groups were various Economic Groups, 31 of them belonging to the National Group for Manufacturing,[19] 4 to trade, 6 to banking, 2 to insurance, 2 to power, 1 to tourist trade, 46 Economic Groups in all.[20] Private entrepreneurs or enterprises could hold membership directly in an Economic Group. As might be expected, the number of members varied from group to group. The Economic Group for "Mining," for example, had only fifty members; the Economic Group for the "Electrical Industry," 500; the Economic Group for "Industries Producing Iron Products," 8,000; the Economic Group "Wholesale Trade," 60,000; and the Economic Group "Retail Trade," about 500,000 members.[21] The Economic Groups were, in turn, subdivided into various Trade Groups, 328 in all, the number in each Economic Group varying with its size. Many of the Trade Groups were further subdivided into Trade Subgroups, the total number of which came to 323. If the National Group for Manufacturing be used as an example, it would be found that mining, iron production, the building industry, and brewing were 4 of the 31 Economic Groups. An Economic Group like Mining would be subdivided into Trade Groups, such as coal mining, copper mining, potash mining. It was not unusual for the Trade Groups and Trade Subgroups to have only a nominal existence, their work being done in the office of, and by the employees of, the Economic Groups. In other cases, a single office unifying several Trade Groups or several Trade Groups and Trade Subgroups was the characteristic arrangement. When, therefore, it is said, as it usually is, that there were 1,150 such Trade Groups, the figure is misleading, for the number of bodies actually functioning was much smaller.[22] Membership in the Functional Groups was made automatic and compulsory by the Nazis, and failure to register brought heavy fines.

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[18] Handicraft not only was one of the Functional Groups on the national level, but had a separate organizational structure; for details see pp. 39 ff.

[19] Originally, the thirty-one Economic Groups of the National Group "Manufacturing Industries" had been subdivided into seven Chief Groups (Hauptgruppen), to each of which a number of Economic Groups belonged. The Chief Groups, which do not seem to have had much significance, were abolished by Decree of Oct. 27, 1938 (*Reichsgesetzblatt*, 1938, I, 1529).

[20] The scope and range of the National and Economic Groups is illustrated by the complete catalogue of their organization in Barth, *Wesen und Aufgaben*, pp. 130-131.

[21] Barth, *Wesen und Aufgaben*, pp. 55 f. [22] *Ibid.*, p. 54.

In spite of the public functions performed by the Groups, those employed by them were salaried employees without Civil Service status. All fees were to be levied by the Economic Groups, which were to pass on part of their income in order to cover the expenses of the Reich Economic Chamber, the National Groups, and their subordinate organizations.

The Economic Groups, the Trade Groups, and Trade Subgroups included, in principle, all entrepreneurs and enterprises in the specific industrial branches throughout the Reich. But because economic conditions in different parts of the country varied, it was sometimes found advisable to organize subdivisions of Economic Groups, Trade Groups, and Trade Subgroups on a territorial basis,[23] particularly when a given function was concentrated largely in a particular area, as was coal mining in the Ruhr, or the textile industry in Saxony. There were 470 such District Groups (Bezirksgruppe), 220 of them belonging to Economic Groups, 180 to Trade Groups, and 70 to Trade Subgroups. In the case of about half of the Economic Groups which did not organize District Groups, their head offices in Berlin were directly responsible for all the members throughout the Reich. The organization of some groups was therefore much more highly centralized than that of others. The district group phenomena within the functional structure was similar to the situation which prevailed in the functional organization of pre-Nazi Germany. There, too, it will be recalled, associations for particular territories were members of the various national unions. As a matter of fact, the entire organizational framework of the groups, especially on the national level, shows a striking likeness to that of the influential functional organization of the pre-Hitler Republic. The likeness went even further; it was reflected in the administrative personnel of the groups. With few exceptions—none of importance—the heads of the National and Economic Groups, of the Trade Groups and Trade Subgroups, were the same personalities who had dominated the pre-Nazi industrial organizations. But it would be a great mistake to assume that the Groups were merely the pre-Nazi Fachverbände with a new name. The Groups, unlike their earlier counterparts, were instruments of the State, strictly supervised and controlled by the State, compelled to serve its purposes, what the Nazis sometimes called "superindividualistic" purposes; they could serve the interests of their members only insofar as those interests harmonized with the objectives of the State-dictated activities.[1] The old entrepreneurial associations and Fachverbände, which were primarily pressure groups functioning to promote the interests of their members, gave way to the Groups, which were primarily administrative agents of a dictatorial government.

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[23] Pietzsch, *op. cit.*, p. 15.

2. *The Territorial Chambers.* The territorial organization, like the functional structure, was developed on three levels corresponding to the major levels of political administration. Every independent entrepreneur and every independent enterprise, including domestic branches of foreign enterprises, regardless of size, was compelled to maintain membership not only in a Functional Group but also in a Chamber of Industry and Commerce (Industrie-und Handelskammer) or in a Chamber of Handicraft (Handwerkskammer).[24] Until the Functional Groups acquired territorial subdivisions (Bezirksgruppe), the Chambers were the only entrepreneurial organizations on a territorial basis. In November, 1934,[25] the individual Chambers of Industry and Commerce were consolidated on the middle level into twenty-three Economic Chambers (Wirtschaftskammern), each Economic Chamber corresponding to one of the twenty-three economic districts of the Reich. Membership in these Economic Chambers was not held by individual entrepreneurs, but, as we shall see later, by Chambers of Industry and Commerce, Chambers of Handicraft, and by territorial subdivisions of Groups.[26] At the top all territorial entrepreneurial bodies were consolidated into the Federation of the Chambers of Industry and Commerce (Arbeitsgemeinschaft der Industrie-und Handelskammern), successor of the pre-Nazi National Federation of Chambers of Industry and Commerce. The Chambers of Industry and Commerce, the Chambers of Handicraft, the Economic Chambers, and the Federation of the Chambers of Industry and Commerce

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[24] The Chambers of Handicraft were part of the separate organizational structure for handicraft. See p. 40.

[25] *Reichsgesetzblatt*, 1934, I, 1194.

[26] Friedrich Kühn, "Der vorläufige Aufbau der gewerblichen Wirtschaft," *Archiv des öffentlichen Rechts*, XXVII (1936), 351; see also Pietzsch, *op. cit.*, p. 26.

were all institutions of public law. The personnel of Chambers of Industry and Commerce were public servants.[27] The expenses of Chambers of Industry and Commerce were covered by levies imposed upon their members like taxes.

3. *Joint Organization of Functional and Territorial Associations.* Although the structure of entrepreneurial associations was systematized and hence considerably clarified by the Nazi reorganization, it was never actually simplified. The vast network of organizations and their intricate interrelationships constitute a maze that is not easy to traverse even with the aid of diagrams,[28] nor did the Nazi reorganization entirely free the entrepreneurial structure of familiar organizational difficulties. The coexistence of Groups and Chambers led to the same kind of internal strife and duplication of effort, that characterized the Chambers and Fachverbände[29] in the pre-Nazi period. A separation into "functional" and "territorial" organizations was bound to raise numerous jurisdictional questions; functional problems often had a regional aspect, and territorial problems a functional aspect.[30] To simplify the work of the two types of organizations and to eliminate as much duplication as possible, certain agencies on both the middle and upper levels were given co-ordinative function. The twenty-three Economic Chambers were designated the chief offices for all entrepreneurial organizations in their respective districts. Each chamber enlarged its administrative machinery for the purpose, creating a special Industrial Division (Industrie-Abteilung) for all the territorial subdivisions of Groups (Bezirksgruppen) in its district,[31] a special Chamber Division for the Chambers of Industry and Commerce, a special division for Handicraft,[32] and, wherever necessary, special divisions for Banking, Insurance, Power (water, gas, and electric), or any other major functional classification. As a result, part of the administrative

[27] See Barth, *Wesen und Aufgaben*, pp. 50-51.

[28] Justus Wilhelm Hedemann (*Deutsches Wirtschaftsrecht*, Berlin, 1939, p. 372) notes that in no other field were so many charts used as in the field of industrial organization. Without them, he feels, it would be impossible to understand the structure because of the multitude of organizations, sub-organizations, interrelationships, and interdependences.

[29] Barth, "Der fachliche und regionale Aufbau der gewerblichen Wirtschaft," *Jahrbuch der nationalsozialistischen Wirtschaft*, pp. 270-271.

[30] Heinrich Drost, "Der Krieg und die Organisation der gewerblichen Wirtschaft," *Zeitschrift der Akademie für Deutsches Recht*, VII (1940), 26.

[31] Decree of July 7, 1936 (see above, p. 19, n. 14).

[32] Decree of Feb. 20, 1937 *(Deutscher Reichsanzeiger* Nr 44*)*.

machinery of each Economic Chamber reflected the functional structure of the enterprise in its district.[33]

A similar development took place on the upper level. Economic Groups and Chambers were integrated into a single top agency, the Reich Economic Chamber (Reichswirtschaftskammer). Looked upon as an institution of public law,[34] it had a membership made up of the National Groups (7), the Economic Chambers (23), the Chambers of Industry and Commerce (about 100), and the Chambers of Handicraft (about 70). The Federation of the Chambers of Industry and Commerce, the chief agency of the Chambers of Industry and Commerce on the upper level, maintained its own legal identity, but was administered by the office of the Reich Economic Chamber.

4. *The Administrative Machinery of Groups and Chambers.* In broad outline the Nazi entrepreneurial organization can be summed up as follows: There was a basic division into functional and territorial bodies, both organized on a hierarchical basis. The smallest functional units were the Trade Groups (sometimes further subdivided into Trade Subgroups). The smallest territorial units were the Chambers of Industry and Commerce. The Trade Groups were subordinate to the Economic Groups, while the Chambers of Industry and Commerce were subordinate to the Economic Chambers. These Economic

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[33] In the third year of the war, on April 20, 1942, a decree was released *(Reichsgesetzblatt,* 1942, I, 189 and 371*)* in which the co-ordination of regional and functional entrepreneurial organizations was pushed even further. The change meant intensification, but not modification of previous tendencies. Economic Chambers, Chambers of Industry and Commerce, and Chambers of Handicraft were ordered merged into Gau Economic Chambers (Gauwirtschaftskammern). The name indicated that closer relationship to the Gaue (the regional districts) of the Nazi party was sought. The Gau Economic Chambers were located in the same cities in which the Gaue of the Nazi party resided, and took over all functions of the three entrepreneurial organizations which merged into them. They were responsible directly to the Department of Economics, although the functional agency on the upper level did not lose its authority over Chambers of Industry and Commerce, and Handicraft. All industrial enterprises were members of the Gau Economic Chambers, which, in turn, were members of the Reich Economic Chamber. The Chambers were, of course, administered according to the leadership principle; their presidents and vice-presidents who had to be active entrepreneurs were to be appointed by the Department of Economics which could assign public functions to the Gau Economic Chambers. The establishment of the Gau Economic Chambers represented in all probability a considerable administrative simplification and improvement. The transformation took considerable time to materialize. By the end of March, 1943—almost a year after the issuance of the Decree—about 150 previously independent entrepreneurial organizations had disappeared *(Essener National Zeitung,* March 31, 1943*)*. The new Chambers, with special divisions for industry, commerce, handicraft, banking, etc., co-ordinated the entire economy of every Gau *(Brüsseler Zeitung,* April 25, 1942*)*.

[34] See Barth, ***Wesen und Aufgaben,*** p. 50.

Chambers supervised not only their subsidiary territorial units but also the territorial subdivision of the Functional Groups (Bezirksgruppe) and the Chambers of Handicraft in their districts. On the highest level, heading both hierarchies, ruled the Reich Economic Chamber, which was the single agency within which functional and territorial organizations merged. With it was affiliated the Federation of Chambers of Industry and Commerce.

Every independent industrial entrepreneur or enterprise was compelled to maintain membership both in the groups and the chambers.[35] A small junk dealer with a "business" consisting of a wagon on the street was under the same compulsion to maintain membership as was the Krupp Works. Some enterprises were members of several groups. Government-owned enterprises usually held membership in the functional, but not in the territorial, associations.[36] Some Economic Groups, like the Economic Group for Savings Banks, consisted exclusively or almost exclusively of government-owned enterprises.

The question of the particular group in which a given enterprise was to hold membership was not always easy to settle. Conditions in industry were far too complex to allow for a blanket application of the principles used in the organization of agriculture, where vertical organizations were constructed, to which every farmer and entrepreneur engaged in the production, processing, and distribution of one or more specific commodities belonged.[37] Barth indicates that, in general, four different principles for determining membership were developed.[38] The membership of a Group might be determined on the basis of the raw material which its entrepreneurs produced or processed. Or membership might be determined on the basis of the use made of the finished product. The Trade Subgroup for the Toy Industry, for example, included all producers of toys regardless of the raw material used in the toy. A third possibility is membership determined on the basis of the particular productive process. The Economic Group for Mining, for example, did not differentiate between the mining of coal or copper, and was indifferent to the final use of the product. A fourth possibility is membership determined on the basis of the process required for using the finished product. The Economic Group for the Electrical Industry, for example, included the producers of radios, motors, electric bulbs, etc., anything which required electric power. Attempts to apply these principles to particular cases undoubtedly led to controversy between various competing bodies. Other jurisdictional problems must have revolved about attempts to draw a clear line of demarcation between the Organization of Industry, the Organization of Transportation, the Reich Food Estate, and the Organization of Culture. In solving these problems it was customary to take into consideration the former entrepreneurial organization. But clearly, at some point a large arbitrary element entered into the final decision. To eliminate some of the jurisdictional friction, a decree of July 7, 1936, created two types of membership. An enterprise became Chief Member (Hauptmitglied) in the organization of the industry in which it carried on the bulk of its economic activities, but it could become a Trade Member (Fachmitglied) or List Member (Listenmitglied) in the entrepreneurial organizations of industries in which it was partially engaged.

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[35] It has been estimated (see *ibid.*, p. 83) that 3.4 million entrepreneurs were members of the entrepreneurial bodies.

[36] See Decree of Department of Economics and Department of the Interior of Jan. 1, 1938, in *Ministerialblatt des Reichministeriums des Innern* (1938), No. 7, p. 234.

[37] See pp. 93 ff.

[38] Barth, *Wesen und Aufgaben*, pp. 45 f.

The guiding maxim of the Groups and Chambers was the injunction "never to act against the wishes of the government of the Reich."[39] Its enforcement was assured by the "leadership" principle and the powers of the Department of Economics, which could erect, dissolve, or merge entrepreneurial bodies at will, or change their constitutions and covenants. Officers of entrepreneurial bodies violating government orders were subject to money fines and prison terms up to one year. Provisions in the Decree of July 7, 1936,[40] made budgets of National Groups subject to the approval of the Department of Economics and the budgets of other organizations subject to the approval of the agency immediately above them. A special division of the Reich Economic Chamber was charged with investigating the financial conduct of all Groups and Chambers and reporting the result to

[39] See *ibid.*, p. 13.

[40] See p. 19, n. 14.

the Department of Economics. Add to these controls the "leadership" principle and it becomes apparent that the entrepreneurial bodies were government-manipulated puppets.

In accordance with the leadership principle the chairmen of all Groups and Chambers were appointed and removed by the Department of Economics. Instead of being elected as they were in the pre-Nazi setup, they were imposed upon the membership from above. The Department of Economics appointed the chairmen of the Reich Economic Chamber, of the Economic Chambers, of the Chambers of Industry and Commerce, of the National Groups, and the Economic Groups. The chairmen of Trade Groups, Trade Subgroups, and special divisions within the Economic Chambers were all appointed by the chairmen of the National Groups (acting upon suggestions from chairmen of the respective Economic Groups). The chairmen of the territorial subdivisions of the Functional Groups were appointed by the chairmen of their respective Economic Groups (in consultation with the chairmen of the appropriate Economic Chamber). The position of chairman was honorary. Chairmen were entirely responsible for the conduct of their agencies and were expected to lead them "in accordance with the principles of the National Socialist State."[41] If they found moral suasion insufficient, they could always fall back on their legal authority and invoke the statute which expressly provided that entrepreneurial organizations obey the instructions of their chairmen. Every entrepreneur knew that the chairman of his Economic Group and the Honor Courts[42] could impose penalties for disobedience. The authority of the various chairmen often extended beyond the domain of their own individual agencies. According to the previously mentioned Decree of July 7, 1936, the chairmen of the higher ranking entrepreneurial bodies had a right to issue instructions to the subordinate organizations and to request reports. The leadership principle and the machinery provided by it for appointing and removing chairmen centralized authority at the top and insured conformity all the way down the line. Orders came from the government, which had at its disposal an obedient hierarchy of entrepreneurial organizations. This must be borne in mind whenever mention is made of what the Nazis like to call "self-government in business," their euphemism for the nominal independence and the freedom of action allowed each agency within the framework of limitations imposed by the government's objectives.

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[41] Sec. 16, 2 of the First Administrative Rules (see above, p. 19, n. 14).

[42] Honor Courts were created by decree of Jan. 20, 1937 (*Deutscher Reichsanzeiger*, 1937, No. 23). When entrepreneurs or handicraftsmen violated their "duty to be honorable and decent in their professional activities (e. g., cut-throat competition, exploitation of customers, etc.) and in their attitude towards entrepreneurial organizations," they were to be tried before Honor Courts, which were established at the Economic Chambers. Appeal courts were erected at the Reich Economic Chamber and the German Handicraft Board. Penalties could be temporary or permanent disqualification to hold office in the "Organization of Industry," warnings, censures, or money fines; handicraftsmen could, in addition, lose the title as "Master" and the privilege to train apprentices. No information is available as to how often this decree was invoked, or as to the activities of the Honor Courts.

In addition to its chairman, each Group and Chamber and each special division of the Economic Chamber had an Executive Secretary and a Board.[43] The Groups boasted a fourth organ, the membership meeting. None of these had any independent significance. Whether the chairman was a civil servant, as in the Chambers of Industry and Commerce, or a salaried employee, as in the Groups, the Executive Secretary was merely his administrative assistant. But he was not entirely free to select the secretary. Secretaries of Groups on all levels, and of the lower level Chambers had to be approved by the Department of Economics.

The Boards of the Groups and Chambers had two types of members, ex-officio members, and members appointed by the Chairman of each Group or Chamber. The ex-officio membership of the Board of any given Group consisted of all the chairmen of its subordinate Groups. The ex-officio membership of a given Economic Chamber consisted of the chairmen of its subordinate Chambers of Industry and Commerce, the chairmen of its Subordinate Chambers of Handicraft, and representatives of the Reich Food Estate, the Communities, and the Transportation Industry.[44] The ex-officio membership of the Reich Economic Chamber consisted of the chairmen of the National Groups, the chairmen of the Economic Groups, and the alternates of the chairmen. The Boards, functioning only in an advisory capacity, were supposed to be consulted "before important decisions." Once a year the Board of any Group had an opportunity to indicate that it lacked confidence in its chairman, but it is impossible to discover whether any of the boards ever made use of that privilege. In any event, it is unlikely that it would have meant removal from office. Barth[45] is very careful to emphasize this difference between the Fascist State and "the late parliamentary constitution." In the Nazi State a vote of no-confidence no longer automatically meant the resignation of the person in whom confidence no longer was reposed. It meant that the superior agency would examine the situation and the attempt to track down the factors responsible for the no-confidence vote, a step taken in order to protect the chairman against no-confidence votes due to "loyal execution of unpleasant government instructions."

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[43] The Chambers of Industry and Commerce had an additional (smaller) Board. See Barth, *Wesen und Aufgaben*, p. 64.

[44] Representatives of the Reich Food Estate and the Transportation Industry were appointed in order to provide an organizational link between the various organized branches of the Economy. This was essential for the solution of problems affecting more than one branch (see Hedemann, *op. cit.*, p. 373).

The membership meetings of the Groups seem to have been of only minor significance.[46] In March, 1935, a decree of the Department of Economics nullified, for all practical purposes, a provision that all Groups with more than two hundred members hold membership meetings at least once a year. When membership meetings were held, members collected information and discussed the activities of their Group.

5. *The Functions of the Entrepreneurial Associations.* Groups and Chambers performed both political and economic functions. Politically, they participated in the education of entrepreneurs in National Socialist principles. The chairmen of the Groups were to conduct the activities of their associations "in accordance with the principles of the National Socialist State," and further the interests of the Groups and their members by giving due consideration to the interests of the entire economy and the necessities of the State. This provision corresponds closely with the provision in the Reichsabgabenordnung (Reich Taxation Law) that tax laws are to be interpreted in accordance with the National Socialist Weltanschauung. These statements were more than mere verbalisms. An idea of what they meant in practice is obtainable from a similar provision in the Decree concerning War

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[45] *Jahrbuch der nationalsozialistischen Wirtschaft*, p. 275.

[46] See Barth, *Wesen und Aufgaben*, pp. 64 and 68. Barth is not very consistent in his statements about the significance of membership meetings. He minimizes it in one place and emphasizes it in another. See also Hedemann, *op. cit.*, pp. 378-379.

Economics[47] which stipulated that prices and fees for commodities and services were to be formed "according to the principles appropriate to a war economy." "Education to the principles of the National Socialist State" meant learning to absorb thoroughly the ideas of a military economy. It meant that entrepreneurs were to learn to conduct their businesses on the basis of the exigencies of preparing for total war. This kind of educational function, destined certainly to encounter the resistance of vested interest, was no small or unimportant assignment.

It is much more difficult to get any reliable notion of the economic functions of Groups and Chambers. The Nazi literature abounds with detailed catalogues of the functions and duties of entrepreneurial organizations, functions and duties that are often identical with those performed by entrepreneurial organizations in pre-Nazi times. To keep entrepreneurs informed concerning technological developments, concerning economic and commercial conditions at home and abroad, to assist them in their efforts to improve management and conditions of work, to advise them in problems of cartelization and monopolization, in problems of taxation, of transportation, of tariffs and commercial policy with foreign nations, in problems growing out of national and foreign currency legislation, to co-operate with them in research and laboratory work, to aid in the technical and professional education of young people by organizing schools and conducting courses, to sponsor or assist in the preparation of fairs and expositions—these are some of the duties and responsibilities listed in the Nazi catalogue which are little different from the activities of the pre-Nazi Chambers and Fachverbände. It is not difficult to imagine that there was still room for these functions in the Nazi economy, and that the functional and territorial entrepreneurial associations continued to perform them. But the careful and detailed overhauling of the entrepreneurial machinery by the Nazis suggests that it was being prepared for a more significant role, one which was integral to the economy as a whole. The functions associated with this new role are of particular interest to us. Unfortunately, however, the kind of information that would make the new role clear is unavailable. There are no detailed records of the daily activities of any of the entrepreneurial organizations. There is no way of checking the activities of officials in order to ascertain the nature of their relationship to the government. One is forced to fall back on material published in Germany, and from it to attempt to piece together a coherent picture.

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[47] *Reichsgesetzblatt,* 1939, I, 1609.

In principle, the economic functions of the Groups and Chambers consisted of carrying through the instructions issued by the government through the Department of Economics, of suggesting economic policies and measures to the government, and, in particular cases, of acting on their own initiative. The Department's decree of November 12, 1936,[48] for example, asked the chairmen of Groups and Chambers to take steps on their own initiative to educate their members to the greatest possible economy and highest efficiency for the good of the nation. Some commentators would divide the functions of Groups and Chambers into activities of "self-government" and activities ordered or passed on by the government.[49] Others divide the functions into those of Groups and those of Chambers, even though they were often the same, and frequently overlapped.[50] But no matter how one classifies the economic functions of the Groups and Chambers, this basic fact emerges from all the information at our disposal: they were first and foremost instruments of the Nazi government, the administrative machinery of an economy being mobilized for war, an elaborate organizational structure through which the government could exercise an economic control detailed and far-reaching enough to affect the smallest businessman. In emphasizing this as the basic function of the hierarchy of enterpreneurial associations, we do not mean to deny that the chairmen and executive secretaries of these organizations ever submitted suggestions and recommendations to the government. In fact, those with forceful personalities, or those representing vital industries may well have exercised considerable influence. Nor do we mean to rule out the possibility that the general objectives of any particular set of instructions to the Groups and Chambers were determined by representatives of these organizations and of the government, in joint session. But since the government would not permit the appointment of any chairman or secretary who did not share its political views completely, there could be little danger in giving some influence and leeway to these leaders of industrial "self-government." How far could they stray without being detected! How serious could infractions become with the government keeping careful watch over a machinery it completely dominated!

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[48] Decree concerning Co-operation with the Organization of Industry and Its Relationship to Market-Regulating Bodies (*Ministerialblatt für Wirtschaft*, Dec. 12, 1936, pp. 269-270).

[49] See, for instance, Hedemann, *op. cit.*, p. 379.

[50] *Ibid.*

To accomplish their various specific tasks, the entrepreneurial organizations employed a wide variety of devices—none unusual for such bodies.[51] They sent out circular letters, published smaller or larger bulletins of information, carried on extensive correspondence, held office hours at regular times for personal interviews, called committee meetings with experts or with particular groups of members, held full membership meetings once or twice a year, and ran trade schools. Three types of activities, however, were definitely prescribed. Entrepreneurial organizations were not to concern themselves with labor relations or social policy (where such activity was unavoidable, they were to consult with the special institutions set up for that purpose). Secondly, they were not to subsidize their members. Since the Department of Economics found it necessary to issue a special decree prohibiting such subsidies, it is quite likely that some of the organizations used membership fees or public funds for subsidy purposes, probably without too much impartiality. Finally, they were not to render service to their members in fields usually serviced by special professional groups, such as lawyers, tax advisers, accountants, and credit information services.

According to Barth,[52] the entrepreneurial organizations were concerned primarily with production and sales. They were to see that entrepreneurs produced correctly from a technical point of view, and sold correctly from an economic point of view. But, as Barth is careful to point out, the Nazis had significantly altered the former standards of correctness. The success of management was no longer measured on a profit and loss sheet. The technical and economic "correctness" of a method of production and sale was determined solely by its contribution, as the Nazis like to put it, to the "general welfare, the people." Apparently the general welfare was construed as military aggrandizement, for many of the concrete suggestions for correcting production involved practices designed to increase the efficiency of the German military economy. Thus entrepreneurial organizations were instructed to see that raw materials were used economically, that cuts and ends were minimized and utilized, that substitute commodities *(Ersatz)* were used by certain industries, and that the waste, which often accompanies the packing of commodities, was eliminated. No mention is made of the types of pressure that were employed to insure enforcement.

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[51] The next few paragraphs lean heavily on Barth, *Wesen und Aufgaben, passim*, esp. pp. 69 ff.

[52] Barth, *Wesen und Aufgaben*, p. 71.

Among the economic functions performed by the entrepreneurial associations were those "connected with regulating the market," that is, those related to the control of production, the sale or purchase of commodities, the conditions of sale and delivery or the fixing of prices. The decree of the Department of Economics of November 12, 1936, specified that in principle such activities were to be left to the cartels and cartel-like organizations, that entrepreneurial bodies were to have jurisdiction only when the Department of Economics approved. But, says Barth, such approvals are given daily.[53] Just how these functions were shared with the cartels and just what was the specific part played by the Groups and Chambers must remain obscure. It is unfortunate that this particular relationship between the entrepreneurial bodies and cartels cannot be more fully explored, for it often must have involved a delicate balancing of power between them.[54]

Everything else we know of the relationship between the cartels and entrepreneurial bodies clearly indicates that the former played the subordinate role. The above-mentioned decree of November 12, 1936, for example, transferred powers of supervision and control of cartels, syndicates, and similar institutions from the Department of Economics to the Groups and Cham-

[53] *Ibid.*, p. 75.

[54] For a more detailed discussion of this problem, see below, pp. 76 ff. So close was the relationship that it was not at all unusual for cartels, especially compulsory and cost-accounting cartels, to combine with Groups. The law permitted such combinations when their membership was identical. See, in addition to Barth, Drost, *op. cit.*, p. 26.

bers. Thereafter the Groups (and possibly the Chambers) could request any and all information that would aid in the establishment and maintenance of an up-to-date cartel register. They could insist upon being apprised of all measures taken to "regulate the market." They became the official representatives of "the people" at cartel conferences. The Reich Economic Chamber and the National Groups for "Industry" and "Trade" could send delegates to any cartel meeting or conference, or to any conference called to discuss the advisability of organizing a new cartel or similar organization, and, if the decisions taken were unsatisfactory, could file a protest with the Department of Economics. The Economic Groups had a right to pre-examine all applications for the establishment of compulsory cartels and all applications for decrees prohibiting the establishment of new industrial capacity or enlargement of existing capacity. This ascendancy of the entrepreneurial bodies over cartels was carefully underscored by a special decree of the Department of Economics which proclaimed that whenever Groups and cartels shared the same offices and personnel the cartels were subordinate to the Groups. It was important that the entrepreneurial bodies, as deputies of the central economic command, prevail against the pre-Nazi monopolistic organization, for the demands of the military were incompatible with the economy of scarcity that monopoly may nourish when left to itself. The idea was to eliminate the monopolistic practices but to leave intact and to utilize the efficient administrative apparatus developed by cartels and similar organizations in their many years of experience.[55] By subordinating them to government-led entrepreneurial bodies, the Nazi rulers could take advantage of their special skills, certain that they were functioning as part of the highly integrated military machine.

In the field of foreign trade, with its host of complicated laws and decrees, and its maze of regulations imposed by foreign government agencies as well as by the domestic Supervisory and Foreign Exchange Control Boards, the Groups and Chambers must have rendered invaluable service as information centers and liaison officers between entrepreneurs and the government. The latter function was largely in the hands of the Groups, which collected suggestions from its members as to desirable changes in commercial policy, and assisted the Reich in its trade negotiations. The Chambers, on the other hand, maintained close contact with the Reich Agencies for Foreign Trade and concerned themselves with keeping entrepreneurs informed about changes in economic conditions and legislation at home and abroad. When some particular geographical area was vitally affected by treaty negotiations, it was not unusual for the local Chamber to assist in the trade negotiations. Both Chambers and Groups played an active role in the efforts to expand the German export trade.

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[55] For details see pp. 69 ff.

It is impossible to deal adequately with all the functions assigned to the entrepreneurial bodies in the Nazi literature, especially since some go so far as to maintain that there was scarcely a decision affecting economic policy in which these bodies did not play a part.[56] Moreover, our inability to verify details and interview participants makes it difficult to give significant weights to the various functions. We can only call attention to some of their other activities, and disclaim any intention of being complete. In developing a uniform bookkeeping and cost accounting system, and instructing entrepreneurs in its use, the Groups forged a powerful instrument for economic control. The Chambers of Industry and Commerce pre-examined all applications for exemption from the price stop, and the Trade Groups and Trade Subgroups administered the reduction of prices for trade marked articles, both at the request of the Price Administrator. Under Nazi tutelage the entrepreneurial bodies became legislators and executors, undertaking assignments previously considered government prerogatives. Scarcely a day passed in which the Groups did not issue decrees regulating the use of raw materials, prescribing special techniques and methods of production, specifying the size of fees and discounts, ordering the forced sale of temporarily abundant foodstuffs, or regulating the use of raw materials. Finally, we should at least mention that the Groups and Chambers had important duties in connection with the Honor Courts.[57]

All this did not happen overnight. New duties and responsibilities developed gradually, as adaptations to the needs of the rapidly changing German situation. With the ever-increasing intensification of government control over the economy, the entrepreneurial bodies were called upon to shoulder fresh responsibilities, sometimes by statute,[58] sometimes at the special behest of high-ranking administrators. It was the Four Year Plan which gave this development its initial impetus. Thereafter entrepreneurial associations were called upon with increasing regularity to assist in carrying out major government policies. By the time the German Army struck at Poland, these associations were to all intents and purposes government agencies. The outbreak of war tied them even closer to the government, and increased their significance. A Department of Economics Decree of August 27, 1939,[59] not only assigned certain specialized administrative functions to the Chambers[60] but made it explicit that a number of government agencies, among them many of the important Supervisory Agencies,[61] could issue instructions to entrepreneurial organizations. Moreover, the Executive Secretaries of Economic Chambers and their subdivisions were instructed[62] to keep in close touch with the Regional Economic Offices, which in August, 1939, had become the administrative agencies on the middle level of the Department of Economics.[63] The shift to a war economy, particularly the closing-down of dispensable undertakings and the enlargement of essential enterprises, is believed to have taken place with the active co-operation of the Economic Groups, who perhaps consulted with the Trade Groups and Trade Subgroups before submitting the conversion plans to the Department of Economics for approval.

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[56] See Barth, *Wesen und Aufgaben*, p. 69.

[57] See p. 28, n. 42.

Information concerning the distribution of various functions between the various levels of the entrepreneurial organization is sketchy and indefinite. The Reich Economic Chamber was the central body, "the joint representative of all the functional and territorial bodies of the 'Organization of Industry.'" To its task it brought all the prestige and influence of a close connection with the Department of Economics. Not only was the Secretary of the Department of Economics, or his representative, the presiding officer of its Board, but the law which created the Reich Economic Chamber expressly called it "an advisory organ of the Department of Economics." This law pointed to specific tasks that were to be referred to the Chamber by the Department. Most of the duties of the Reich Economic Chamber were no different from those of its members on the lower levels, but its specific problems had a more general significance, requiring treatment fro the broadest possible point of view, and often touching upon matters which extended beyond the domestic scene into the field of international relations.[64] Its remaining duties were uniquely its own. To it was assigned the task, for example, of organizing an Appeal Court to hear suits brought against businessmen in the Honor Courts. More important was the role it played as clearinghouse for all differences of opinion among different Groups and Chambers. The Reich Economic Chamber was the great conciliator, reconciling differences, adjusting disputes, deciding between conflicting jurisdictions, and in general securing full co-operation from every office of the "Organization of Industry." Whenever conflicts arose, it was empowered to issue special instructions, subject only to the approval of the Department of Economics.[65]

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[58] The Law of June 28, 1935, concerning the Collection of a Special Industrial Levy *(Reichsgesetzblatt,* 1935, I, 812*)*, for example, which directed the Reich Economic Chamber to impose a special levy in order to raise funds to subsidize export trade.

[59] *Reichsgesetzblatt,* 1939, I, 1519 and 1872.

[60] The original decree mentioned only Chambers of Industry and Commerce. In an additional decree *(Deutscher Reichsanzeiger,* 1939, No. 224*)* Chambers of Handicraft were included. For further details about Chambers of Industry and Commerce, see p. 55.

[61] See pp. 47 ff.

[62] G. Albrecht, "Die Regelung des gewerblichen Güterverkehrs in der Kriegswirtschaft," *Jahrbücher für Nationalökonomie und Statistik,* CLI (1940), 606.

[63] See p. 54.

The tasks of the twenty-three Economic Chambers were numerous and detailed. They protected and co-ordinated the common interests of the individual Chambers of Industry and Commerce in their district. They co-ordinated the activities of all the functional organizations on the middle level, and of the individual Chambers of Handicraft in their districts. They pre-examined applications for exemptions from the general price stop, and co-operated closely with the Offices for the Formation and Supervision of Prices. They acted as Regional Clearing Offices (Bezirksausgleichstellen) for distributing government orders among the entrepreneurs of specific districts in accordance with provisions issued by the National Clearing Office (Reichsausgleichstelle), a section of the Department of Economics. They made regular reports to the Department of Economics on economic conditions in their districts,[66] and, finally, they maintained close contact with all government agencies in their districts and all party offices, particularly with the Trustees of Labor, the Regional Labor Offices, the Regional Armament Inspectors, the Regional Collectors of Internal Revenue, the Offices of the Provincial Governors, and the many District Offices of the party and the Labor Front.

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[64] Hedemann, *op. cit.*, pp. 383-384.

[65] Drost, *op. cit.*, p. 26.

6. *The Organization of Handicraft.* The position of Handicraft in the Nazi economy is slightly anomalous. As one of the seven Functional Groups on the national level, it was part of what was called the "Organization of Industry." But the details of its organizational structure are sufficiently different to warrant independent treatment.[67] No sharp line separated industrial from handicraft producers. An official register drawn up by the Departments of Economics and Agriculture listed the industrial activities which could be practiced as a handicraft. Those who earned their livelihood from any listed activity were compelled to become members of the handicraft organization. All others not in agriculture, were members of the industrial bodies. It was often difficult to decide whether a particular practice was or was not some aspect of a listed activity, and the number of doubtful cases was large.

In spite of differences in detail the organizational structure of handicraft was quite similar to that of industry as a whole. Its functional and territorial bodies were ordered on three different levels. The lowest functional organizations were known as Handicraft Guilds (Handwerkerinnungen), and since the handicraft list had seventy different items, there could be as many as seventy guilds in any given city or village. When membership in individual guilds was small, related types of handicraft were united into single guilds, with subguilds each made up of one of the groups of handicraftsmen considered too small to enjoy the status of an independent Handicraft Guild. When war broke out in 1939, there were fifteen thousand Handicraft Guilds in Germany (excluding Austria and Sudentenland),[68] which held membership in one of the fifty-two Reich Guild Associations (Reichsinnungsverbände) on the middle level. These fifty-two bodies held membership in the National Group called "Handicraft," which, the reader will recall, was one of the seven National Groups of the regular Organization of Industry. Whenever a particular handicraft was concentrated in a region which did not coincide with the geographic areas assigned to agencies on the lowest level, the functional Reich Guild Associations on the middle level were permitted to organize regional subdivisions.[69] A unique aspect of the Organization of Handicraft was the fact that the Handicraft Guilds, the association which comprised the bottom level of the functional structure of handicraft, were the only organizations on that level. There were no territorial bodies on the bottom level. The middle level of the territorial hierarchy consisted of fifty-nine Chambers of Handicraft (Handwerks-Kammern), all subordinate to the German Handicraft Board (Deutscher Handwerks-und Gewerbekammertag), the agency on the upper level. Probably because of the great number of Handicraft Guilds (fifteen thousand in 1939 it will be recalled), seven hundred District Handicraft Offices (Kreishandwerkschaften)—as a rule, one for each district of the regular political administration—were organized to function between the lower and middle levels. The activities of the territorial and functional bodies were co-ordinated on the upper level by having one chairman, the Reich Handicraft Director (Reichshandwerksmeister), serve as head of the National Group called "Handicraft" and the German Handicraft Board. He was appointed by the Department of Economics, and was, of course, directly responsible to that office. Of all the handicraft organizations, only the Handicraft Guilds, the Chambers of Handicraft, and the German Handicraft Board were institutions of public law.

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[66] Pietzsch, *op. cit.*, p. 27.

[67] For the legislation enacted for handicraft, see p. 19, n. 14.

Governed by the leadership principle, the handicraft organizations were completely subject to government domination. Their administrative machinery was similar to that of the entrepreneurial bodies of industry. Each guild was subject, by law, to the control of its Chamber of Handicraft, and was administered by a chairman (Obermeister) appointed by its Chamber of Handicraft, a board appointed by the chairman, and a membership meeting. The Chambers of Handicraft operated in accordance with a set of by laws drawn up by the Department of Economics and were administered as were the District Handicraft Offices, the Reich Guild Associations, and the German Handicraft Board, by *(a)* a Council, which consisted of a chairman and a vice-chairman appointed by the Department of Economics, and eight members appointed by the chairman, and *(b)* a Board, the members of which were also appointees of the chairman. The functions of the Handicraft Guilds, which were specified by law, included the taking of steps, in co-operation with the Chambers of Handicraft, to improve methods of production and the management; the regulation and supervision of the education and examination of apprentices; and the construction of Trade Schools for the advancement of the technical and professional education of handicraft people. The law also provided that they establish Honor Courts[70] and lend support to all economic organizations which might assist handicraft, co-operatives, for example. But it is safe to assume that they performed many functions not written into the law, that they were utilized to serve whatever purposes the supervising government agencies felt would increase the efficiency of the military economy. Like the functions of other industrial organizations, the governmental functions of handicraft agencies increased considerably after the outbreak of the war.[71] In fact, the Chambers of Handicraft actually became official subsidiary agencies of the Regional Economic Offices.[72]

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[68] Hedemann, *op. cit.*, p. 387.

[69] Pietzsch, *op. cit.*, p. 16.

THE STRUCTURE OF GOVERNMENT AGENCIES FOR ECONOMIC REGULATION

In order to meet the numerous problems created by the Nazi government's decision to prepare for total war, it was necessary to overhaul not only the industrial organization of the country, but the structure of government agencies in charge of economic regulation of one kind or another. Before the Nazis finished with it, the structure of government agencies erected for the war economy was every bit as complicated as the structure of the entrepreneurial organizations. By the end of 1940, the following government agencies made up the complicated public regulatory machinery of Germany: (1) The Reich Department of Economics;[73] (2) The Office of the Four Year Plan; (3) The War Economy Division of the Army; (4) Reich Agencies (Reichsstellen); (5) Regional Economic Offices (Besirkswirtschaftsämter) and Economic Offices (Wirtschaftsämter) of the Department of Economics; (6) Leadership Offices of the Economy (Führungsstäbe der Wirtschaft); (7) Reich Commissioners for the Chambers of Industry and Commerce. We shall treat separately the periods before and after the outbreak of war.

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[70] See p. 28, n. 42.

[71] W. Wernst, "Die Handwerkswirtschaft im Kriege," *Jahrbücher für Nationalökonomie und Statistik,* CLIII (1941), 62 ff.

[72] See p. 55.

Government Regulatory Machinery before the Outbreak of War. 1. *The Department of Economics*, created early in 1919 when the Republic was first organized, was one of the youngest departments in the Reich government. Although it operated with only a small staff, its extremely important functions included responsibility for commercial policy and international trade agreements, for money, banking, and foreign exchange control, for the supervision of cartels, for the statistical work of the Reich, and for the control of private insurance. In addition, it served as an adviser to the Reich government on all problems that required analysis from an economic point of view. After 1933, when a good deal more was involved in economic regulation, the Department's responsibilities mounted; and although no precise information is available, it is likely that its staff was enlarged and its influence widened. The major reorganization which took place on February 4, 1938,[74] is a matter of public record. Thereafter the Department was made up of five main divisions (some headed by high army officers) and several subsidiary government agencies, which will be treated later. The significance of the reorganization is a matter of conjecture. One of its purposes, if not its chief purpose, was to incorporate important functions and agencies of the Office of the Four Year Plan into the Department of Economics.[75] The fact that one of the new subsidiary agencies of the Department was the Reich Agency for the Development of the Economy (Reichsstelle für Wirtschaftsausbau) charged with "research, planning, and execution" of the Four Year Plan,[76] the fact that the change was decreed by Hermann Goering, Chief of the Office of the Four Year Plan,[77] and the fact that many new appointees to high positions were individuals previously connected with the army and the administrative machinery of the Four Year Plan, individuals who probably enjoyed Goering's confidence, certainly suggests that the reorganization was a device for consolidating Goering's strength as the supreme commander of the German military economy.[78]

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[73] The Secretary of the Department of Economics held a second office, the Office of the General Commissioner of the Economy (see p. 51). But this office did not apparently constitute a separate agency.

[74] *Das gesamte Recht des Vierjahresplanes*, ed. Carl Mölders (Berlin, 1940), Gruppe 1, pp. 8 a-d.

[75] See Hedemann, *op. cit.*, p. 46.

Another important change in the Department of Economics came shortly before the outbreak of war, when it acquired subordinate agencies "to assume functions of government regulation of the economy."[79]

2. *The Office of the Four Year Plan* was created by the Decree of October 18, 1936,[80] which described its functions only vaguely. Hitler's original statement[81] and Goering's first few announcements[82] claimed that the objective of the Four Year Plan was the building up of natural and artificial raw material industries in order to achieve economic independence for Germany. But this was a half-truth, a piece of clever camouflage. A correlative objective was the appointment of a supreme command for the military economy analogous to the high command of the army, a command that could issue orders to the various sectors of the economy as if they were so many regiments in the field. An economy run like an army is well organized, highly centralized and extremely adaptable, an ideal instrument for planning and control in a society which views its citizens only as war effectives. To the Nazis, already busily engaged in "the preparation of a war economy in time of peace"[83] the need for centralization, for increasingly detailed and careful planning, and more rigid con-

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[76] *Der Vierjahresplan,* II (1938), 105.

[77] See pp. 44 ff.

[78] See p. 51.

[79] August Dresbach, "Aemter und Kammern," *Die Wirtschaftskurve,* XX (1941), 193.

[80] *Reichsgesetzblatt,* 1936, I, 887.

[81] *Das gesamte Recht des Vierjahresplan,* Gruppe I, p 1.

[82] See particularly his speech of Oct. 28, 1936 (*Der Vierjahresplan,* I, 1937, 31 ff.).

[83] W. Meinhold, "Die deutsche Kriegspreispolitik," *Jahrbücher für Nationalökonomie und Statistik,* CLI (1940), 675; see also G. Albrecht, "Der allgemeine Verwaltungs-und Organisationsapparat für die Kriegswirtschaft," *Jahrbücher für Nationalökonomie und Statistik,* CL (1939), 595.

trol, must have become quite apparent, and the Four Year Plan was the result. Evidently no special precautions were taken to keep secret the connection between the military economy and the Four Year Plan, for soon after the latter's adoption the Chief of the War Economics and Armament Division of the High Command of the Armed Forces expressly referred to their interconnection.[84]

The Office of the Four Year Plan was never supposed to be the center of a large new administrative organization.[85] Quite the contrary. It was to make use of existing agencies as far as possible, and create new agencies only when absolutely necessary. It was to be a kind of Super-Department, headed by Hermann Goering, and was given explicit authority in Hitler's original decree of October 18, 1936, to issue instructions to every department of the Reich Government, to the various institutions of the Nazi party, in fact, to everybody who had anything to do with the direction of the Reich economy. As head of the Office of the Four Year Plan, Goering was the most powerful single figure in German economic life, and would have been it even if he had not already enjoyed tremendous political power before taking over his new office. There, he was both lawmaker and chief administrator of the economy. Not only did he interfere in the administration of all departments, but he made the laws which the various departments carried out.[86] This centralization, in the hands of a single agency, of the ultimate power to legislate and administer for the entire economy—in fact, to legislate and administer by decree—meant, of course, that decisions could be made instantly, and in terms of immediate objectives, instead of waiting upon the procedures of parliamentary democracy.

The scope of the Office's work, some of which is described in greater detail in other chapters, is perhaps best suggested by listing its original administrative divisions: divisions for (a) production of German raw materials; (b) allocaton of raw materials; (c) allocation of manpower; (d) production of agricultural commodities; (e) formation of prices; (f) problems relating to the foreign exchange control system. The distribution of effort among these divisions was quite uneven.[87] The Office did much less for agricultural production and foreign exchange control, both of which were handled by special well-developed agencies, than it did to increase the domestic production of raw materials, or to develop an effective machinery for allocating human and material resources.[88] In this connection, special mention might be made of the Office's activities with regard to the rationalization of industry and the establishment and management of industrial enterprises, such as the Hermann Goering Works. One of the most active divisions was the Division for the Formation of Prices, to which the special price agency (the Reich Commissioner for the Formation of Prices), created October 29, 1936, was responsible. Another was the Division for the Allocation of Raw Materials, which originally handled, among other things, the problems connected with scrap and waste materials, collected by various institutions of the Nazi party.[89] As the shortage of raw materials became increasingly acute, the problem of scrap became more important, and eventually was assigned to a special agency responsible to the Office of the Four Year Plan, the Reich Commissioner for the Utilization of Waste Material.[90]

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[84] *Der Vierjahresplan,* I (1937), 92-93.

[85] First Administrative Rules concerning the Four Year Plan of Oct. 23, 1936 (*Der Vierjahresplan,* I, 1937, 36-37).

[86] H. W. Zinser, "Verfassungs-und verwaltungsrechtliche Fragen des Vierjahresplan," *Archiv des öffentlichen Rechts,* XXIX (1938), 204 ff.

The creation of the Office of the Four Year Plan concentrated a tremendous amount of economic power in the hands of the most powerful and ruthless representatives of the Reich government. But just how much it is difficult to say. It seems clear that in the making of final decisions the authority of the Office of the Four Year Plan superseded that of the Department of Economics, but there is no indication in the Nazi literature of where the functions of the Department of Economics ended and those of the Office of the Four Year Plan began. The functional overlapping must have created very serious problems.[91] The upshot was a redistribution of functions between the two top agencies responsible for economic policies which came about with the reorganization of the Department of Economics in 1938, mentioned above.[92] This reorganization involved also the Office of the Four Year Plan. Although many of the details are unavailable, it is known that the Department of Economics took over many functions previously performed by the Office of the Four Year Plan. The Reich Commissioner for the Utilization of Waste Material, for example, became part of the Department of Economics. A competent German authority suggests[93] that a great deal of administrative detail was shifted to the Department, leaving the policy-determining functions to the Office of the Four Year Plan.

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[87] See Hedemann, *op. cit.*, p. 46.

[88] For a detailed account of the activities of the Office, particularly concerning the production of substitute commodities, see Gerhard Mackenroth, "Bericht über den Vierjahresplan," *Jahrbücher für Nationalökonomie und Statistik*, CXLVIII (1938), 696 ff.

[89] W. Köhler, "Altmaterialerfassung," *Der Vierjahresplan*, I (1937), 134.

[90] Wilhelm Ziegler, "Aufgaben und Erfolge der Altmaterialwirtschaft," *Der Vierjahresplan*, II (1938), 671 ff.

[91] Paul Körner, "Führung and Wirtschaft," *Der Vierjahresplan*, II (1938), 66-67.

3. *The War Economy Division of the Army.* The German Army built up a three-level economic organization of its own. On the top level, operating as part of the Supreme Command of the Armed Forces (Oberkommando der Wehrmacht), was the War Economics and Armament Division (Wehrwirtschafts-und Rüstungsamt). Subordinate to it were the Regional Armament Inspectors (Rüstungsinspektionen) on the middle level, and the Local Armament Commands (Rüstungskommandos) on the lower level. Just when these agencies were organized, whether before or after the declaration of war, is not known. Nor is there much information concerning their authority. Dresbach,[94] the only source of information on the War Economy Division, indicates that "enterprises which were designated as 'armament plants' *(Rüstungsbetriebe)* were subject not to the Department of Economics but to the War Economy Division of the Armed Forces." But there is no information on whether the interpretation given to the word "armament plant" was narrow or wide. Nor is there any information as to what aspects of production and management of armament plants the jurisdiction of the War Economy Division of the Armed Forces extended, and whether, within the armament area, the War Economy Division superseded the very powerful Office of the Four Year Plan. Perhaps it was only a superprocurement department with an administrative machinery of its own to see that its final say over what should be produced was carried out.[95] All that we can say is that in the area

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[92] See p. 42.

[93] See Körner, *op. cit.*

[94] Dresbach, *op. cit.*, p. 195.

[95] It appears from a note in the *Reichsarbeitsblatt* (XX, 1940, Pt. V, pp. 572-573)

affecting "armament" plants the authority of the War Economy Division superseded that of the Department of Economics.[96]

4. *Reich Agencies (Reichsstellen).* "Reichstellen" were government agencies quite different from one another in structure and purpose.[97] Many of them played significant roles in the economic organization of the government. Some, like the Reich Agency for the Development of the Economy (Reichsstelle für Wirtschaftsausbau), were integral parts of an administrative section of the Department of Economics.[98] Others were independent agencies usually within and subordinate to the Department of Economics. One of the most important of the Reich agencies was the Reich Agency for the Administration of Foreign Exchange Control (Reichsstelle für Devisenbewirtschaftung), which was made one of the main divisions of the Department of Economics in April, 1938. A similar agency was the Reich Agency for Foreign Trade (Reichsstelle für Aussenhandel),[99] which was subordinate to the Department of Economics and the Ministry of Foreign Affairs and which had nineteen regional branches to give information and advice to businesses.

Particularly important for government regulation of the economy were the Reich agencies responsible for the control of import trade, raw materials, and finished goods. Originally called Überwachungsstellen (Supervisory Agencies), they were made Reichsstellen (Reich Agencies) by the Decree concerning Trade (Verordnung über den Warenverkehr) of August 18, 1939.[100] The Supervisory Agencies[101] were originally set up by the De-

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that the War Economics and Armament Division was also responsible for the economic exploitation of the occupied territories, for which it had apparently prepared for years.

[96] This is also indicated in a casual remark in Posse-Landfried-Syrup-Backe-Alpers, *Die Reichsverteidigungsgesetzgebung*, 1941., Pt. I, "Wirtschaftsverwaltung," p. 7.

[97] There were various Reichsstellen with an educational or cultural purpose; see *Handwörterbuch der Betriebswirtschaft* (2d ed., 1939), II, 1421-1423.

[98] There were frequent changes in administrative organization, many of which, however, were not of great economic significance. The Reich Agency for the Development of the Economy, for example, which, in addition to other functions, was to study the production and use of industrial raw materials—obviously *Ersatz* commodities—, was separated from the Department of Economics in January, 1940, and became an independent agency responsible to the said Department *(Ruhr und Rhein,* Feb. 2, 1940, p. 52*)*.

[99] Created on the basis of the Law of Oct. 18, 1933, concerning Measures to Promote Foreign Trade *(Reichsgesetzblatt*, 1933, I, 743*)*.

[100] *Reichsgesetzblatt,* 1939, I, 1430, and 1942, I, 684, and *Deutscher Reichsanzeiger,* 1934, Nr. 192.

[101] To distinguish these particular Reich agencies from those previously mentioned, we shall call them Supervisory Agencies whether we are dealing with the period before or after Aug. 18, 1939.

partment of Economics in accordance with the Law concerning Trade in Industrial Raw Materials and Semimanufactured Commodities of March 22, 1934.[102] A few months later, by the decrees of July 13, 1934, and September 4, 1934,[103] their authority was extended to all commodities including finished goods, the purchase, distribution, storage, sale, and consumption of which they were to supervise and regulate. Up to the end of 1940, thirty-one Supervisory Agencies had been created, each one responsible for a specific commodity or a group of commodities throughout the country, and each one subordinate either to the Department of Economics, the Department of Agriculture, or the Reich Forestry Board. These departments not only appointed Reich Commissioners as chiefs of Supervisory Agencies but laid down the general policy which the Agencies carried out. Formally they were not government bodies, but actually they must be regarded as such. Their expenses were covered by special fees collected from businessmen according to a schedule, which, like the budgets of the Agencies, had to be approved by the respective Departments. Although the range of activity of each Agency varied, all had extensive powers. They could not only inspect commodities, open wrappings, and request all kinds of information about general economic conditions, prices, inventories, production, productive capacity, etc., but could confiscate investigated commodities and request penalties prescribed by law (prison terms and unlimited money fines) for violators of their rulings. Any industry affected by decisions of a particular Supervisory Agency could be represented in the Agency by an advisory board of its own members, appointed by the Department to which the Agency was subordinate.

Originally, when the chief duty of the Supervisory Agencies was to enforce an efficient and just distribution of foreign and domestic raw materials, they had very little to do with regulating imports as such. The emphasis was on raw material regulation. But in the autumn of 1934, when rigid regulation of foreign trade became necessary, and Hjalmar Schacht announced the "New Plan," the Supervisory Agencies were utilized in the control of the import trade.[104] Their task was a vital one.[105] It involved concentrating upon essential imports and adjusting—usually by restricting—the total volume of imports to the amount of available foreign exchange. In the autumn of 1936, after the organization of the Office of Price Formation, their authority was extended to enable them to participate in price-fixing activities.[106] Whenever those activities were in any way connected with imports, the Supervisory Agencies could issue rulings affecting prices, profit margins, terms of delivery and payment. They could, for example, fix maximum and minimum prices for commodities like scrap iron, hides, metals, and wastepaper. But even if the Supervisory Agencies had not received these powers over imports and prices, we should have had to consider them among the most important of the regulatory agencies of the Reich; for it is quite clear that their responsibility for the distribution of all raw materials—foreign and domestic—gave them almost complete control over production.

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[102] *Reichsgesetzblatt*, 1934, I, 212.
[103] *Ibid.*, pp. 709 and 816, and *Deutscher Reichsanzeiger*, 1934, Nr. 209.

Because of differences in the economic conditions of the specific industries under their jurisdiction, and because of the wide range of their duties there was very little similarity in the way individual Supervisory Agencies carried out their tasks. In the administration of import trade under the supervision of the Department of Economics there was much greater uniformity than in the administration of raw materials. Some Agencies rigidly controlled the market; others left it relatively free. The degree of control exercised by a Supervisory Agency often depended upon the number of firms operating in the market, or upon the previous absence or presence of a cartel or trade association in the given market. A study prepared in 1937 shows that the growth of experience, and the improvement in the relationship between Supervisory Agencies and business in the early years of the Nazi regime, brought with it an increase in administrative flexibility.[107]

Changes in the Government Regulatory Machinery after the Outbreak of War. For six years the Nazis fashioned an administrative machine equal to the task of directing a military economy.

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[104] Decree of Sept. 11, 1934, *Reichsgesetzblatt,* 1934, I, 829.

[105] Leonhard Miksch, "Die Wirtschaftskontrolle der Überwachungsstellen," *Die Wirtschaftskurve,* XVI (1937), 123.

[106] Decree concerning the Formation of Prices for Foreign Commodities of July 15, 1937 *(Reichsgesetzblatt,* 1937, I, 881*).*

[107] Miksch, *op. cit.,* p. 137.

But they knew full well that their elaborate preparations were only a prelude to actual hostilities. When finally, in September, 1939, they struck out at Poland, their administered economy had already been put on a complete war footing. "The transition to a war economy constituted the sudden execution of a far-reaching, well-prepared plan," explained a professorial commentator in one of the first detailed German analyses of the war-economy organization.[108]

On August 27 and 30, 1939, only a few days before the declaration of war, various decrees affecting the economy-regulating machinery were promulgated. Of particular interest to us are the two decrees[109] embodying the following changes: (1) the creation of two new superagencies, the Ministerial Council for the Defense of the Reich (Ministerrat für die Reichsverteidigung) and the General Council (Generalrat); (2) the creation of Leadership Offices of the Economy (Führungsstäbe der Wirtschaft); (3) the establishment of additional agencies subordinate to the Department of Economics and the Department of Agriculture; (4) the appointment of Reich Commissioners for the Chambers of Industry and Commerce; and (5) some minor institutional changes.

1. On the highest administrative level the Ministerial Council for the Defense of the Reich was created to cope with problems arising out of the rivalry and conflict between the three most powerful economic agencies, the Department of Economics, the Office of the Four Year Plan, and the War Economics Division of the Supreme Command of the Army. Appointed as a Committee of the Council for National Defense (Reichsverteidigungsrat), about whose creation, composition, and jurisdiction[110] nothing at all is known, the Ministerial Council was composed of the Head of the Four Year Plan, who was its chairman, the Deputy Leader of the Nazi party, the General Commissioner (Generalbevollmächtigter) for the Reich Administration, the

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[108] Albrecht, *op. cit.*, p. 593. See also "Einheitliche Leitung der gesamten Kriegswirtschaft," *Reichsarbeitsblatt*, XX (1940), Pt. V, p. 35.

[109] Verordung über die Wirtschaftsverwaltung (Decree of Aug. 27, 1939, concerning the Administration of the Economy) and Erlass über die Bildung eines Ministerrats für die Reichsverteidigung (Decree of Aug. 30, 1939, concerning the Creation of a Ministerial Council for the Defense of the Reich) *(Reichsgesetzblatt*, 1939, I, 1495 and 1539*)*.

[110] See *Frankfurter Zeitung*, Jan. 1, 1941.

General Commissioner (Generalbevollmächtigter) for the Economy, the Secretary of the Office of the Reich Chancellor, and the Chief of Staff of the Armed Forces. The decree of August 30, 1939, which created the Ministerial Council, gave it the power to legislate for the entire economy. But it is apparent from the composition of the Council, and from the fact that the decree reaffirmed the power of the Office of the Four Year Plan to issue instructions, that Goering's position in the economy was in no way weakened. If anything, it was strengthened. The intent of the decree was to provide a unified top command in matters not of a purely military nature, a unity previously dependent largely upon the personality of Hitler. It was also intended to simplify and accelerate the lawmaking process which had already dispensed with the checks and balances that act as brakes in a political democracy. For that reason two General Commissioners were appointed to the Council, Commissioners in whose hands was centralized much of the legislative and policy-making authority previously exercised by the various departments. The General Commissioner for the Reich Administration was a kind of superdirector, integrating the activities of the Departments of Interior Justice, Education, and Church Affairs; the other General Commissioner occupied the same position with regard to the Departments of Economics, Agriculture, Labor, and Forestry, the Office of Price Formation, to say nothing of the indirect control he exercised over the Reich Treasury, the Reichsbank, and the Department of Transportation.[111] But he was shorn of a great deal of his power by January, 1940, when it was reported that his authority extended only over the Central Bank and the Department of Economics[112]

The Ministerial Council performed some of its functions as super co-ordinating agency of the war economy through the offices of eighteen subordinate Reich Defense Commissioners (Reichsverteidigungskommissare) created by the decree of September 1, 1939,[113] to serve on the regional level. An amendment of November 16, 1942, changed the original decree only very slightly.[114] Established in the localities in which the eighteen main regional offices of the army (Wehrkreiskommandos)[115] were located, they were appointed by the Chairman of the Ministerial Council and were to utilize the personnel of the offices of the governors of some of the states and some of the large Prussian provinces. Placing these political agencies in the localities occupied by the army offices was not mere coincidence. It was a means of assuring closer co-operation between civilian and army administration,[116] especially where the regional political organization did not coincide geographically with the regional military organization. Primarily responsible for "civilian defense," the Reich Defense Commissioners worked in close co-operation with the army authorities. They seem to have functioned as executive agents, often receiving their instructions from the two General Commissioners. Once policy was determined, they could issue instructions regarding civilian defense to all the civilian public agencies in their respective districts, except the postal service, the railroads, and the Internal Revenue Administration.

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[111] See Posse-Landfried-Syrup-Backe-Alpers, *loc. cit.*, Pt. 1, "Wirtschaftsverwaltung," p. 2.

[112] *Der Deutsche Volkswirt*, XIV (1940), 424; see also *Reichsarbeitsblatt, op. cit.*, p. 37.

[113] *Reichsgesetzblatt*, 1939, I, 1565.

The other superagency on the top level, the General Council (Generalrat), was created by Goering, who appointed himself chairman.[117] Made up of the Deputy Leader of the Nazi party, the Undersecretary in the Office of the Four Year Plan, the Undersecretaries of the Departments of Economics, Agriculture, Labor, Forestry, and Transportation, and representatives of the General Commissioner for the Reich Administration, the Office for the Formation of Prices, and the War Economics and Armament Division, it met once a week to co-ordinate the activities of the various agencies determining economic policy and to decide upon economic questions of current significance. A policy-making body, it made decisions which were carried out by the various Reich Departments.

2. The Leadership Offices of the Economy, eighteen of them, were established to co-ordinate activities on the regional level.

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[114] *Ibid.*, 1942, I, 649.

[115] By decree of Sept. 22, 1939 (*Reichsgesetzblatt*, 1939, I, 1937), eighteen Defense Councils were created to advise the Commissioners. These councils were made up mostly of official personalities.

[116] See Albrecht, *op. cit.*, p. 599.

[117] Nazi literature does not make clear exactly when the General Council was created. It may have existed without much significance before its mention early in 1940.

Like the eighteen Reich Defense Commissioners, they were located in the cities occupied by the main regional offices of the army. They had no administrative machinery of their own, but utilized that of the Regional Economic Offices and the Economic Offices.[118] Affiliated with the offices of some of the governors of the states and some of the large Prussian provinces, they were not only consultative bodies, but co-ordinative agencies empowered to issue instructions to all organizations on the middle level, such as the Regional Labor Offices, the Regional Economic Offices, the Economic Chambers, the Economic Groups, the Regional Collectors of Internal Revenue, the Regional Agricultural Offices, the Chambers of Industry and Commerce, and the Chambers of Handicraft.[119] The position of these Leadership Offices is best understood as analogous to that of regional offices in most political administrations. Just as the head of a political administration on the middle level co-ordinates the work of all the administrative bodies on that level in accordance with general instructions from the central ministries, but with an eye to special conditions in any particular locality, so the Leadership Offices of the Economy co-ordinated the work of the various regional economic agencies in accordance with general rules formulated by official economic agencies on the upper level, and exercised discretionary authority wherever the peculiarities of a particular situation demanded it.

3. Agencies subordinate to the Department of Economics and Agriculture were created to meet the demands of regional and local administration. Other departments operated through their own local and regional administrative apparatus, but the Department of Economics and the Department of Agriculture had to depend upon co-operation with other departments, or with enterpreneurial agencies, such as the Economic Chambers, the Chambers of Industry and Commerce, and the Chambers of Handicraft. For a long time there had been controversy over whether the two departments were to be permitted an administrative apparatus of their own,[120] and by the time war was declared plans for such an apparatus were so far advanced that it is

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[118] See p. 54.

[119] See Posse-Landfried-Syrup-Backe-Alpers, *op. cit.*, Pt. I, "Wirtschaftsverwaltung," p. 7.

[120] See Dresbach, *op. cit.*, p. 194.

likely that it would have been erected even if the outbreak of war had been postponed indefinitely. As matters turned out, the decree concerning the administration of the economy created new administrative agencies for the Department of Economics and the Department of Agriculture on the middle and lower levels, thus providing these departments with a regional and local administrative apparatus that was independent of both the entrepreneurial organizations,[121] and also of machinery of any other departments. Here, we are most interested in the agencies of the Department of Economics. Those on the middle level, called Regional Economic Offices (Bezirkswirtschaftsämter),[122] were, like the Reich Defense Commissioners, situated in the eighteen cities occupied by the main regional offices of the army, and, in some states and large Prussian provinces, were made divisions of the Governor's office. Those on the lower level, known as Economic Offices (Wirtschaftsämter), were made part of the county offices and, in large cities, of the Mayor's office.[123]

To the Regional Economic Offices was intrusted the important task of seeing that those enterprises in the manufacturing industry, in trade, in banking, in insurance, and in handicraft which were essential for the conduct of the war, were kept in efficient running order. Theirs was the responsibility for keeping these enterprises supplied with sufficient labor, productive equipment, means of transportation, electric power, etc. In addition, they were to participate in the rationing and control of raw materials and semimanufactured goods, in the administration of regulations affecting the consumption of important commodities like coal, mineral oil, tires, and some finished goods, and in the administration of scrap collection and utilization.[124] In exercising these functions the Regional Economic Offices had to pursue many varied activities. The decline in the productivity of a given enterprise may have had its origin in the exhaustion of the workers, in sabotage, in a lack of skilled workers, in bad management, or in inefficient tools. To the Regional Economic Offices fell the responsibility of suggesting to the proper authorities the appropriate remedy, higher rations for the workers, perhaps, or investigation by the Gestapo, or a change in management. The authority of these offices extended beyond their own subordinate agencies. They had a right to issue instructions, not only to the Economic Offices below them, but to many other middle level agencies of the Department of Economics, such as the Regional Agencies for Foreign Trade and Foreign Exchange Control, the Economic Chambers, the Chambers of Industry and Commerce, and the Chambers of Handicraft.

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[121] See Landfried, *op. cit.*, p. 1321.

[122] On April 1, 1941, the name "Bezirkswirtschaftsämter" was changed to "Landeswirtschaftsämter"; see Dresbach, *op. cit.*, p. 193.

[123] The same decree created Regional Food Offices and Food Offices as subsidiary agencies of the Department of Agriculture, and Forestry and Timber Offices as subsidiary agencies of the Department of Forestry. The Regional Food Offices and the Forestry and Timber Offices were divisions in the offices of the governors of the states and the large Prussian provinces. The Food Offices were part of the county offices, and, in the large cities, of the Mayor's office.

[124] Administrative Rules of the Decree concerning the Administration of the Economy (*Reichsgesetzblatt*, 1939, I, 1519 and 1872), and Landfried, *op. cit.*, p. 1323.

The Economic Offices, as subsidiary agencies of the Regional Economic Offices, took instructions exclusively from their regional superiors. In addition to supervising the collection and utilization of scrap, they were largely concerned with the distribution of rationed commodities to consumers.

4. The naming of the Chairmen of the Chambers of Industry and Commerce as Reich Commissioners provided an additional administrative arm for the Department of Economics. Subordinate to the Regional Economic Offices, these Reich Commissioners, like the Economic Offices previously mentioned, were administrative agents of the Reich Economic Administration on the lower level. They were created to function on that level as instruments of the Regional Economic Offices, whose task was to administer the rationing of raw materials and semimanufactured goods, and to keep the enterprises of essential industries in efficient working order. Although the office of Reich Commissioners was abolished in August, 1941,[125] it is unlikely that this meant any diminution in the activities of the Chambers of Industry and Commerce, which had become increasingly important regulatory agencies for the government. The Chambers continued to perform their quasi-government functions, and were particularly active in their efforts to close down and comb out businesses.[126]

5. To complete the picture of war developments in the or-

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[125] See Dresbach, *op. cit.*, p. 199.

[126] See p. 211.

ganizations of industry, mention should be made of some of the comparatively minor institutional changes. After the administrative changes of August, 1939, one more supervisory agency, the Supervisory Agency for Coal, was organized. At the same time there was an expansion in the administrative machinery of the other Supervisory Agencies which were feeling the strain of new and far-reaching measures affecting the administration of production and distribution of raw material. In this connection the individual Supervisory Agencies organized distributing agencies for each of the individual industries. The Reich Agency for Paper, for example, created four special distributing agencies, one each for the distribution of cellulose, pulp, paper, and cardboard. On the basis of suggestions by the distributing agencies, the Supervisory Agencies fixed the quantity of a specific commodity that a given industry was permitted to produce, and it was left to the distributing agencies to determine the order in which production was to take place. The other noteworthy change was the appointment either of General or Special or Reich Commissioners (Sonderbeauftragte, Generalbevollmächtigte, or Reichskommissare) for industries considered essential for the prosecution of the war, such as the iron and steel industry, the machinery industry, the building industry, the automobile industry, the textile industry, and the electric industry. Appointed by the Department of Economics or the Office of the Four Year Plan, they were expected to eliminate problems created by competition among the various public procurement agencies for raw material supplies and dates of delivery.

The Government Administration of the Economy presented in 1941 a widely ramified and complicated organizational picture. Built up piece by piece upon the foundation of the previously existing administrative machinery, it could not be expected to present a carefully rounded and highly systematized structure. Its actual functioning must have been characterized by frictions, administrative difficulties, and conflicts between various bureaucracies, each insisting that final authority in a given situation was vested with it. Much of this can be gleaned from the comments of Dresbach, writing as late as August, 1941:

> The concept "Governmental Administration of the Economy" and the name "Regional Economic Office" pretend a totality that does not

> exist by any means. What exists, at the moment, is several administrative structures, each charged with economic administration. To present a clearer picture, we shall deal only with the agencies on the middle level. There is the Army District Commissioner of the Department of Armament and Munitions, the Regional Armament Inspectors charged with taking special care of armament plants, the Regional Economic Office, the Regional Food Office, the Regional Forestry and Timber Office, the Regional Commissioner for the Construction Industry, the Office for the Mining Industry, the Office for the Formation of Prices, the Commissioner for Transportation, and, finally, in the field of social legislation, the Regional Labor Office and the Trustees of Labor. The Administrative districts of these agencies are the same in a very few cases. Usually they cut into each other, a factor which certainly does not facilitate co-operation among them. There is a growing need, therefore, for an agency on the middle level to co-ordinate all these offices. Mention was made, in this connection, of the Leadership Offices of the Economy. But so far, they have become responsible for only a part of the middle-level agencies.[127]

If we bear in mind that any author in Nazi Germany, especially one who is analyzing government institutions, must exercise unusual restraint, we need not hesitate to conclude that the well-oiled Nazi administrative machine was a good deal less than frictionless. With the passage of time, as the demands upon it increased, its difficulties undoubtedly multiplied. Note should also be taken of the rapidly developing tendency—quite natural under the conditions of modern warfare—to adapt the economic organization to the requirements of military organization. The Regional Armament Inspectors, the Regional Economic Offices, and the Leadership Offices for the Economy, it will be recalled, were all established in the cities in which the Wehrkreis-Kommandos, i. e., the Regional Army Offices, were located. As economic issues and military questions became increasingly indistinguishable, the requests of the military no doubt became virtual commands to the civilian administrative hierarchy.

The organization of German industry is so complex that it may be wise to recapitulate at this point, and present a concise summary of the machinery. The Commissioner for the Four Year Plan was the Supreme Commander of the War Economy Organization,[128] but the General Commissioner of the Economy seems to have exerted considerable influence in the determination of economic policy. The Department of Economics was responsible for all the subsidiary public agencies administering industry (as well as for the entrepreneurial industrial organizations). Its complicated administrative machinery was organized on all three levels: the Supervisory Agencies and Special Commissioners, such as the Reich Commissioner for the Utilization of Old Material, the Reich Commissioner for the Textile Industry, etc., on the upper level; the Leadership Offices of the Economy, the chief co-ordinating agencies on the middle level for all public and "private" bodies dealing with economic problems; and the Economic Offices and the Chambers of Industry and Commerce and Handicraft, which operated on the lower level.

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[127] Dresbach, *op. cit.*, p. 198.

[128] See *Reichsarbeitsblatt*, *op. cit.*, p. 35.

Difficult as is the task of describing adequately the administrative structure created by the Nazis, it is not as difficult as trying to determine the jurisdiction and specific functions of the various agencies. The absence of information in the German sources is probably deliberate. In this chapter we have tried to call attention to material we have been able to locate. There is enough here certainly to enable one to skeletonize the administrative structure through which the Nazis controlled and directed investments, production, the allocation of raw materials, the employment of labor, money and banking, the formation of prices, rationing, and rationalization. The specific functions of all these organizations will be made clearer in the following chapters, which take up the larger problems of the Nazi military economy.

Chapter 3

The Use of Cartels as an Agency of Control

FORMS OF MONOPOLISTIC POWER, 59. CARTELS IN THE PRE-NAZI PERIOD. 64—General Remarks, 64; Government Policy towards Cartels in the Pre-Nazi Period, 65, CARTELS UNDER NATIONAL SOCIALISM, 69—Legislative Measures in 1933, 69; Increase of Government Power over Cartels through Administrative Measures, 74; The Functions of "Cartels" in the Military and War Economy, 78.

Forms of Monopolistic Power

Wherever the individualist competitive economic system has taken root and continued to develop, the institution of free competition has undergone important changes. The nature of these changes, particularly in the last fifty years, has made it apparent that free competition creates conditions and sets into operation forces which tend to destroy it.[1] Originally thought of as a process of "natural selection" among enterprises, none of which was large or strong enough to control in its own favor changes in market conditions, competition became increasingly less effective as numerous institutions embodying varying degrees of monopolistic power came to the fore.[2]

In Germany, the changes of the last half century have been similar in scope to those of other countries which are organized on an individualistic competitive basis. But the manner in which these changes have there manifested themselves has often been different; and these differences have left their mark on her economic development. There is hardly a country in which cartels have been as significant for the economy as in Germany. Government policy, unlike that in Anglo-Saxon countries, has never been hostile to cartels. They were not only recognized by the courts, but for many years were permitted to pursue their own independent policies unhampered by state control of any kind. Finally, in 1923, when legislation in Germany made meager attempts to supervise and control cartels, it neglected all other monopolistic institutions, which, for all practical purposes, were left to their own devices. During the Nazi period, the legislation concerning cartels was significantly changed. Since the changed cartels were important tools for the conduct of Nazi economic policy, we shall deal with them at some length.

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[1] For a brief analysis of the development, see Otto Nathan, "Cartels and the State in the Light of German Experience," in *Government Control of the Economic Order* (Minneapolis, 1935).

[2] For the United States, see Clair Wilcox, *Competition and Monopoly in American Industry*, Temporary National Economic Committee, Monograph No. 21 (Washington, D. C., 1940).

In order to view the cartel in its proper context, it is advisable to consider briefly, on the one hand, the various types of business organization, which need in no way affect the degree of competition in the market, and on the other hand, those institutions and devices designed specifically to exercise some degree of control over the market.

Germany had six different forms of business organization, all of them so similar to those in other countries that they require but brief mention. There was the individual proprietorship, owned and managed by a single person whose liability was unlimited; the partnership *(Offene Handelsgesellschaft)*, owned or managed by two or more partners each of whom was personally responsible without limit for all its debts and commitments; the limited partnership *(Kommanditgesellschaft)*, composed of two different types of partners, those who managed the affairs of the association and were responsible without limit for all its debts, and those whose liability was limited in advance and who did not participate in management; the limited liability company *(Gesellschaft mit beschränkter Haftung)*, all the partners of which were subject to a liability that was limited in advance; the joint-stock corporation *(Aktiengesellschaft)*, the ownership and management of which were in different hands, the owners being liable to an extent determined by the number and par value of the shares in their possession; and the partnership limited by shares *(Kommanditgesellschaft auf Aktien)*, a combination of the limited partnership and joint-stock corporation, differing from the limited partnership mainly in having a much more complicated legal structure. In the partnership limited by shares the partners not participating in management owned shares in the capital of the partnership and enjoyed the rights, duties, and obligations of shareholders in a joint-stock corporation. But at least one partner was liable without limit for all the debts and obligations of the partnership.

All these forms of enterprise are compatible both with monopolistic and competitive activity. An individual proprietorship, for example, may be a buyer or seller in a highly competitive market, or may exercise monopolistic or semimonopolistic power. The form of the business enterprise is not in itself a factor determining its status as monopolistic or competitive. An enterprise enjoys monopolistic or semimonopolistic power, regardless of its form, insofar as its influence in the market is sufficiently great to enable it to increase its profitability beyond what it would be under free competition. The increased profitability need not be a result of prices higher than a free competitive market would tolerate. Monopolistic power may make itself felt in many other ways. It may, for example, give rise to increased profits by reducing costs below the level that would be established by free competition.[3] But, regardless of the means employed, it is the power of the enterprise to change general market conditions to its own advantage that constitutes monopoly. Any of the previously mentioned forms of business enterprise may or may not exercise it, always of course within the limits imposed by a particular set of circumstances and by the elasticities of the demand and supply of the product involved. In cases where any of the above-mentioned forms of business organization did exercise monopolistic or semimonopolistic power, we can find no record of whether the German government ever took steps to abolish, regulate, or control them.

With regard to institutions created for the specific purpose of dominating the market an entirely different situation existed. These institutions all involved some kind of combination of two or more enterprises, each willing to limit or abolish its economic independence in order to increase the profitability of the combining units. No really systematic description of these is possible[4]; we shall merely list the most important:

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[3] In such a situation it is quite conceivable for prices to be lower and profits to be higher than they would be in a highly competitive market.

(a) Cartels *(Kartelle)* were contractual agreements between legally independent enterprises in the same industry, agreements by which market conditions were regulated or influenced for the purpose of increasing the profitability of the contracting parties. The extent to which such agreements involved a curtailment of the economic independence of their participants was specifically limited by the contract. Enterprises joining the cartel did not merge into each other, but continued to exist legally side by side. The contract usually ran for only a specified period of time—usually a few years—after which each enterprise was completely free to remain outside the cartel.

(b) Pool *(Interessengemeinschaft)* was usually a contractual arrangement among only a few enterprises, and involved a more extreme curtailment of economic independence than did the cartel. Different forms were possible: There could be an integration of administration through unilateral or mutual exchange of directors (interlocking directorates), or through a new corporation set up to manage the originally independent enterprises. It could take the form of management on a common account basis, and distribution of profits according to a prearranged scheme.

(c) Financial Participation *(Effektenkapitalistische Beteiligung)* was a practice usually effected through unilateral or mutual exchange of shares. The size of the financial participation of one enterprise in another could vary anywhere between a small minority position and a large majority position, depending upon the particular circumstances and purposes of participation. The acquisition of a financial interest in another enterprise might be prompted merely by a desire to invest in an organization with favorable prospects. On the other hand, it might be motivated by the advantages to be obtained from economic domination of a competitor, or of an enterprise from which raw materials or essential commodities must be purchased.

(d) Concerns *(Konzerne,* which can also be translated as "combines"*)* were often difficult to distinguish from the previously enumerated institutions. Whatever incidental characteristics the concern may have had, it always involved a completely centralized management of the legally independent enterprises that have joined hands. It always required a permanent or near permanent surrender of economic independence, so complete that the combine functioned as a single unified economic entity pursuing a single unified economic policy under a single economic command. In this way it differed from the cartel, which not only lacked a unified economic command but limited the activities of its members only with regard to matters clearly defined in the cartel agreement. It differed from the complete merger in that the enterprises which created it retained their legal independence.

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[4] See Hedemann, *op. cit.*, p. 329.

A concern could be a vertical or a horizontal combination. The prevailing type in Germany was the vertical combine, which had its own raw material base and extended its control to the production of manufactured or processed goods. All powerful concerns, in the light industries as well as the so-called heavy industries, acquired their own coal or lignite bases. The German chemical and potash concerns, for example, all managed to obtain their own sources of coal and lignite.

(e) Mergers *(Fusion)* were the most radical form of combination. Two or more enterprises surrendered their economic and legal independence completely, losing all identity as individual entities. Frequently, the merger meant absorption by a parent enterprise created for the purpose, or by an organization which previously exercised a dominant influence.

Theoretically, any of the six forms of business organization could enter into the various types of agreement to curtail competition. In Germany, the form most common to enterprises making combination agreements was the joint-stock corporation, but it was by no means the only one. To avoid the publicity which would be required under the charter of a joint-stock corporation, some of the most powerful concerns in Germany have preferred the partnership or limited partnership form.

It is impossible, of course, to generalize about the degree of monopoly power exercised by any of these institutions. It varied from one kind of combination to another, from industry to industry, from one period of time to another. Technological changes at home or abroad, changes in commercial policy, in taxation, in patent legislation, in prices and costs, all affected the changing power of various combinations over the market.

Cartels in the Pre-Nazi Period

General Remarks. Enterpreneurs in an individualistic competitive economy who join a cartel agreement hope thereby to change market conditions in their favor. Success does not depend upon participation by all competing enterpreneurs. It is sufficient to have a membership powerful enough to influence purposefully the market situation. Although cartel agreements have been set up to influence either the demand or supply in the market, those designed to improve the bargaining position of sellers are more usual than those projecting collective purchasing plans. To achieve their ultimate objective—increased profitability—they may influence conditions of purchase or sale (rebates, discounts, freight charges, cost for packing, insurance, etc.), change market prices, fix minimum prices, allocate to each cartel member a fixed quota of production or sale, or a specific territory, exchange information concerning methods of manufacturing, agree upon certain models and standards in order to reduce production costs, or agree upon specific cost-accounting procedures.[5]

From the little that has been said, it must be apparent that effective cartels can exercise considerable influence in the market, and even fundamentally change the structure and functioning of an economy. The Nazi government, anxious to build up its military economy and aware of the actual and potential strength of Germany's cartel organization, could not afford to allow it to function in the old ways. Our analysis will try to make clear the legislative and administrative changes which were introduced by the Nazis, and which so changed the structure and functions of cartels that they soon resembled the pre-Nazi organization in name only. To understand this development, it is advisable to have an idea of the estimated strength of the cartel system and of its legal position when the Nazis came to power.

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[5] The most advanced types of cartel in Germany, the so-called Syndicates *(Syndikate)*, not only regulated production and prices, but also had a special selling agency which replaced all sales activities of their individual members and through which all merchandise produced was sold.

It is very difficult to measure the significance of the cartel organization for the German economy in any but general terms. Some statistics are available, but the problem of the strength of the cartels is more than a statistical matter. Even if the figures recorded in a report of the Temporary National Economic Committee be completely reliable—385 cartels in 1905, 1,500 in 1924, and 2,500 in 1925[6]—they are far from adequate as a satisfactory measure of the economic importance of cartels. Since they do not reveal the size, the composition of the membership, the territory over which the cartel power was extended, or the importance of outsiders, it is difficult to say exactly what conclusions may be drawn from them with regard to the extent of monopolistic practice. Certainly, for example, the inclusion of foreign countries in certain cartels would strengthen their power in the market without necessarily changing their numbers. The significance of cartels is perhaps better revealed by the estimate of the Institute for Business Cycle Research, which suggests that about 40 per cent of the entire industrial production in 1933 was controlled by cartels.[7]

Government Policy towards Cartels in the Pre-Nazi Period. The traditional German attitude towards cartels has never been hostile. In 1897 the German Supreme Court held that combinations of individuals or enterprises do not violate the principle of freedom of trade unless in intent or in actual fact they are consumer-exploiting monopolies. In the eyes of the German courts, the cartel was a lawful manifestation of the right of entrepreneurs to exercise freedom of contract.[8] This attitude and the absence of specific legislation curtailing monopolistic practices did much to encourage the growth of cartels and the view that they were a higher form of economic organization. From 1914 to 1918 cartels performed many important functions in the war economy and increased considerably in number. The revolutionary political developments in Germany in and after 1918 did not affect the

[6] *Investigation of Concentration of Economic Power,* Temporary National Economic Committee, Monograph No. 40 (Washington, D. C., 1941), p. 39.

[7] *Wochenbericht des Instituts für Konjunkturforschung,* VI (1933), 151. The Institute does not make clear whether this figure refers to production controlled only by cartels or by all existing monopolies.

[8] For a brief, but concise, discussion of the legal problems involved, see Temporary National Economic Committee, *op. cit.,* pp. 48-49.

structure of cartels. The only developments which did take place during this period were the creation of a new compulsory cartel for the coal industry and the reform of the compulsory cartel for the potash industry.

Out of the unrest and resentment against all organized industry during the period of inflation, and out of years of vigorous agitation by organized groups antagonistic to the cartel interests, finally came the Cartel Decree of November 2, 1923,[9] the first official cognizance of monopoly taken by the legislature. The climate of legislative opinion at the time is probably best expressed in a speech of October 6, 1923, by Reich Chancellor Stresemann, before the Reichstag:

> What we need is to check the trend toward monopoly prices that in many ways has caused prices to be higher than those in the world market. Economic competition should not be abolished by syndicates and similar organizations as actually it has been. Producers no longer need to worry about whether they are able to sell their goods. This situation, partly the result of the war and postwar conditions in which demand exceeded supply, is economically unsound. It means the end of technological progress and the beginning of stagnation. Had we always followed this price policy of syndicates and similar organizations, we should never have captured world markets and should never have been successful.[10]

But this was evidently not meant as an attack on the cartel form; for an official announcement which accompanied the publication of the decree took pains to mention some of the virtues and constructive possibilities of cartels.[11] It called attention to the fact that cartels were protectors of small and medium-sized enterprises and should serve as useful agencies of rationalization as well as promoters of fair business practices, and it proclaimed that the government attack was directed only against abuses which had developed. It made clear, in other words, that the new decree meant no change in the basic official attitude toward the legality of contracts resulting in quasi monopoly. In fact, their legal position may be said to have improved. In being subjected to a certain degree of control and supervision by the government, cartels were given official statutory recognition as legal entities, a recognition not explicit in the previous negative ruling of the courts that cartels were not illegal because they were an example of the enterpreneur's right to exercise freedom of contract. But the fact that they were now subject to government control could have more than counterbalanced any advantage that might have grown out of their new legal status.

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[9] Decree against Misuse of Economic Power (Verordnung gegen Missbrauch wirtschaftlicher Machtstellungen) of Nov. 2, 1923 (*Reichsgesetzblatt*, 1923, I, 1067 and 1090).

[10] *Verhandlungen des Reichstags*, I. Wahlperiode 1920-24, CCCLXI, 11942.

[11] Rudolf Isay and S. Tschierschky, *Kartellverordnung* (Mannheim, 1930), pp. 414-416.

The decree dealt with the various possible relationships of cartels, those among cartel members themselves, those between cartel members and third parties, and those between cartels and the State. To settle disputes that might grow out of any of these relationships, it created a special cartel court. The heart of the decree, however, was the unprecedented provision that contracts in any way involving cartels, though executed in good faith, could lawfully be terminated at any time during the life of the contract by any party to it, by order of the government, or by order of the Cartel Court. Such a contract ceased to be binding either when it unduly limited the economic freedom of the withdrawing party, or when it (or a decision by a cartel) endangered the economic life or the welfare of the community. In the case of excessive interference with the economic freedom of a party to a cartel contract (either a cartel member or a nonmember having a contractual relationship with a cartel) action could be taken, under Section 8 of the decree, by the injured party himself, and if appealed by the cartel, was subject to review by the Cartel Court. Where the national economy or the welfare of the community was at stake, it was up to the government to take action. The Secretary of the Department of Economics was authorized by Section 4 of the decree to proceed in any of three different ways: (a) he could file a motion with the Cartel Court to void the agreement or decision, or to prohibit its execution; (b) he could announce that any party interested in the contract or decision could withdraw from it at any time and without notice; and (c) he could issue orders stating that a copy of all measures and rulings with regard to the contract or decision were to be sent to him, and that all these measures and rulings were not to take effect until he had received copies of them.

Whatever potential effectiveness these provisions may have had was vitiated by the way the decree was enforced. While private enterpreneurs frequently took advantage of the privilege granted them under Sections 8 and 9 of the decree, the pre-Nazi governments were apathetic. They seemed reluctant to make use of their new power. All in all, in the ten years until 1933, the Department of Economics proceeded against cartels only five times, three times under 4(b) and 4(c), and twice under Section 4(a). In the latter two cases the affair proceeded no further than the filing of the motion with the court.[12] Not one of the 210 decisions made public by the Cartel Court from November, 1923, to August, 1933, dealt with suits brought before it under Section 4 of the Cartel Decree.[13] When questions were raised in the Reichstag about the government's lack of initiative, the usual reply was that the mere threat of Section 4 had effectively prevented those cartel activities which the section had been designed to eliminate. Enforcement was lax in still another way. The decree, as its original title suggests, was ostensibly directed not only at cartels, but at the misuse of economic power by any kind of monopolistic organization. Whenever the activities of monopolistic organizations, regardless of their legal or organizational form, endangered the economic life or the welfare of the community, Section 10 of the decree authorized the Ministry of Economics to petition the Cartel Court for a ruling that it was legal for a party suffering hardship to withdraw from its contract with such an organization. Unlike Section 4(b), which was directed only at cartels, Section 10 did not give the Department of Economics the right to authorize an individual to withdraw from a contract without the intercession of the Cartel Court. And interestingly enough, the court could not, as it could in the case of cartels, void the contract or agreement involved. It was limited to authorizing individual parties to withdraw from the contract. Although this was a much less drastic interference with monopoly than is the utter nullification of a contract, the Department of

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[12] Heinz Müllensiefen und Wolfram Dörwinkel, *Das neue Kartell-Zwangskartell-und Preisüberwachungsrecht* (Berlin, 1934), pp. 55-56.

[13] Rudolf Callmann, *Das deutsche Kartellrecht* (Berlin, 1934), pp. 705-708.

Economics asked the courts for such authorization only a few times; and those few times the court, pursuing a policy similar to the one it followed with regard to Section 4(a), failed to take action.[14]

It seems apparent, therefore, that neither in conception nor in operation was the Cartel Decree a force that in any basic way changed the official German attitude towards cartels and other monopolies. They were subject to a certain amount of control, but were never actively fought by the government. In general, restraint of trade was considered legal, even though there were circumstances under which individual cartel contracts could be invalidated.

As the Weimar Republic approached its end, however, the government's authority over cartels was increased in a way that foreshadowed developments that were to take place during the Nazi regime. Under the pressure of increasingly difficult situations which began to appear during the depression after 1929, the semidictatorial governments then in power issued decrees in 1930 and 1931 that gave the Government of the Reich (and not merely the Department of Economics) authority to act directly, without recourse to the Cartel Court, whenever contracts involving cartels or similar combinations contained specifications for calculating or fixing prices. Existing side by side with the original Cartel Decree, applicable only to cartels which fixed prices, and supposedly valid only during the period of the depression emergency, these decrees gave the government the power to invalidate the price contracts of cartels or authorize parties to the contracts to withdraw from them whenever the government felt that the contracts resulted in uneconomic interferences with production or distribution, or that they curtailed economic freedom to the detriment of the entire economy.[15]

Cartels under National Socialism

Legislative Measures in 1933. That one of the very first legislative measures taken by the Nazi government with regard to industrial policy was concerned with cartels is in itself an indication of their strength and far-reaching significance. Long before the erection of the "Organization of Industry," long before the development of elaborate schemes of government domination over the economy, the Nazi government had taken decisive action with regard to the cartelized parts of industry.

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[14] Müllensiefen and Dörwinkel, *op. cit.,* p. 63.

[15] See *Kartell-Rundschau,* XXVIII (1930), 518 ff., and many subsequent issues of this magazine from 1930 to 1932.

Not long after the Nazis seized control, they realized that the military economy, even in its earliest stages, could not tolerate in the hands of privately controlled, independent cartels the economic power which the Cartel Decree had been unable to curtail significantly. At the same time, it was recognized that the cartels were superbly adapted to function as an instrument for regulating new capital investment, so important to a military economy because of its effect upon the magnitude and composition of future production. As a result, there were enacted on July 15, 1933, two cartel laws which applied only to cartels and similar combinations. The other monopolies were not brought under government control at that time. Government authority over them, however, was gained a little while later.[16]

The first of the two statutes[17] was clearly designed to increase the power of the government over cartels. Section 4(a) of the previous Cartel Decree, it will be recalled, provided that the government could ask the Cartel Court to invalidate undesirable cartel contracts. According to that decree, the government could not act independently, and void contracts at its own discretion. Its independent discretionary power was restricted to granting permission to individuals to withdraw from contracts or agreements which were damaging to them. In order to increase the power of the government, the first statute of 1933 gave the government authority to invalidate contracts directly. If it was deemed necessary to nullify a contract, the government was no longer to be merely a petitioner at the mercy of the court.[18] Instead, by a shift of authority from the judicial institution to the Department of Economics, the government was made prosecutor and judge. Power was concentrated. A more effective integration of cartel control and general economic policy was made possible. Secrecy in negotiations was now assured whenever it was deemed important for the government and the cartels. Decisions could be made more rapidly, in terms of a given objective, and without recourse to the judiciary. This was the importance of the 1933 amendment. In all other ways the authority vested in the Department of Economics by Section 4 of the old Cartel Decree continued unchanged.

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[16] The hierarchial structure which the government erected to "regulate" industry included small and giant enterprises alike and brought them all virtually under the domination of the government. For further details, see pp. 19 ff.

[17] Law concerning Change of the Cartel Decree (Gesetz über Änderung der Kartellverordnung) of July 15, 1933 (*Reichsgesetzblatt*, 1933, I, 487).

[18] The Cartel Court was abolished as a special court by the law of Feb. 25, 1938 (*Reichsgesetzblatt*, 1938, I, 216). As of July 1, 1938, the Reich Economic Court took over the functions of the Cartel Court and assigned all cartel suits to a special division. Since, as far as we are able to discover, the new division simply took over the personnel of the Cartel Court, the change was obviously not very significant.

The second statute of July 15, 1933,[19] was even more sweeping and significant than the first. Granting authority to the Department of Economics to strengthen weak cartels, to make them more efficient administrative units with jurisdiction over entire industries, to establish them where they were previously nonexistent, and, finally, to control them, this statute converted the cartels into effective instruments of the military program then in preparation.[20] Its force and boldness, so characteristic of the Nazi government, was in sharp contrast to the meager and halfhearted cartel policy of the Weimar Republic. This statute alone would have enabled the Nazis to exercise far-reaching domination over industry. It authorized the Secretary of the Department of Economics to create compulsory cartels wherever he liked "if it appeared to be in the interest of the enterprises concerned and desirable from the point of view of the entire economy." Membership in cartels, previously voluntary and contractual, could be made compulsory, and the Department of Economics was given far-reaching authority to dictate the activities of cartels, and to interfere in any and all duties, privileges, and contractual relations of cartel members. Particularly significant was the power to prohibit the establishment of new productive capacity and the extension of existing productive capacity in any industry, and the power to determine the extent to which the capacity in specific industries was to be used. The authority vested in the Department of Economics by this statute was thus a far cry from the timid police power previously exercised by the government with regard to cartels. The usual grounds for government interference, the desire to combat abuses, to restore free competition, to protect "weaker" parties in the market, were left far behind as cartels were shaped into instruments for projecting the economic policies of a government preparing for war. It is true that compulsory cartelization was not a completely new departure,[21] but the compulsory cartels of the Weimar Republic had been organized after protracted discussions and negotiations; they were created by special legislation, to meet special conditions in a few industries, and not as the new statute would have it, by direct administrative action, whenever and wherever the Department of Economics considered it necessary.[22]

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[19] Law concerning the Creation of Compulsory Cartels (Gesetz über die Errichtung von Zwangskartellen) of July 15, 1933 (*Reichsgesetzblatt*, 1933, I, 488).

[20] In this connection it is interesting to note that similar authority to erect compulsory cartels was created in Japan on April 1, 1931, in Poland on March 17, 1932, and in Italy on June 16, 1932 (Walter Strauss, "Die neue deutsche Kartellgesetzgsbung," *Kartell-Rundschau*, XXXI, 1933, 521).

When this compulsory cartel statute was made public, it was accompanied by an official statement which attempted, in characteristic Nazi fashion, and perhaps not without considerable success, to mislead public opinion.[23] Its theme was to become increasingly familiar to the German citizen, the oft-repeated disclaimer that the government had no intention of changing the economic system and substituting a state-planned economy. Not only was the statute necessary in view of the grave situation threatening the German economy, the official statement explained, but it was in harmony with wishes expressed by the enterpreneurs themselves. Despite the untrustworthy character of most Nazi announcements, the item concerning enterpreneurial agreement was probably true. So often before, particularly during the depression, had cartels advocated measures that would make their economic power completely monopolistic by forcing outsiders off the market or into the cartel. The manner in which the government finally complied with this wish reflected a tre-

[21] There were compulsory cartels earlier in the coal industry, in the potash industry, in the starch industry, for milk, sugar, matches, and shipping.

[22] An analysis of the administration of the statute during the first three years of its existence reveals that in a large majority of cases the government preferred to force outsiders into already existing cartels, rather than create new ones. See Claire Russel, "Die Praxis der Zwangskartellgesetzgebung," *Zeitschrift für die gesamte Staatswissenschaft*, XCVII (1937), 503. For a similar analysis of the first four years, see Carl Billich, "4 Jahre nationalsozialistische Kartellpolitik," *Der Deutsche Volkswirt*, XI (1937), 2526.

[23] Müllensiefen and Dörwinkel, *op. cit.*, pp. 85-87.

mendous increase in its authority, but it should not be inferred that it had now become completely independent of the power of the cartels. On the contrary, in strengthening its own hand at this stage, it perforce strengthened that of the cartels. Whenever outsiders are eliminated as possible competitors, the bargaining position of cartels with other enterpreneurs and with the government is greatly improved. Cartels no longer needed to dissipate their energies fighting outsiders. Very likely, they could now afford to take a firmer, more independent position with regard to the government.

The position of voluntary cartels, which continued to exist in great numbers, was not much different from that of compulsory cartels. If they were recalcitrant, they could expect the government either to force them into organizing on a compulsory basis, or play the outsiders against them. If, on the other hand, they were co-operative, any problems which they might have with regard to outsiders would largely disappear. Since they were being used more or less as instruments of national policy, they could be sure that outsiders, fearing compulsory cartelization, would hesitate to undertake disruptive activities. As time went on, however, the ascendancy of the government over all cartels was more firmly established. The rapid development of price control, of the quota system in raw materials and other commodities, administered by Supervisory Agencies and Foreign Exchange Control Boards, of the new hierarchical machinery controlling industry and agriculture, all combined to rob the cartels of many of the original powers and *raison d'être* which they had possessed in a traditional capitalist economy. They became, instead, agents of a government preparing for war, a government determined to employ the organizational superiority of the cartel form.[24] To a war economy the ability to deal with a few large organizations in possession of detailed information concerning the various aspects of production and distribution is an inestimable advantage. It was an advantage the Nazis did not hesitate to seize.[25]

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[24] For a similar analysis, see S. Tschierschky, "Wettbewerbsrecht und wirtschaftliche Organisationspolitik," *Kartell-Rundschau,* XXXIV (1936), 8.

[25] "The cartels provided the government with a well functioning, highly experienced apparatus" *(Der Deutsche Volkswirt,* XIV, 1939, 346*).*

Increase of Government Power over Cartels through Administrative Measures. The steadily growing subservience of the cartels to the government was not merely a statutory phenomenon; in fact, no additional laws with regard to cartels were promulgated.[26] It was the result rather of a two-way development. On the one hand, the numerous regulative agencies of the Reich either usurped or made impossible many of the activities previously pursued by cartels. On the other hand, the government, anxious to utilize the integrated organizational machinery of cartels for control purposes, invested them with new functions. The net result was an increase in the government's power over cartels, and a radical change in their nature and significance for the economy. Special note should be taken of this change because it is such a characteristic phenomenon of the Nazi economy, yet one which is often overlooked. It was a common practice of the Reich to inherit an institution from pre-Nazi days, alter it, employ it in the new context of the military economy, for entirely different purposes, but continue to call it by its old name. This factor is bound to be a source of confusion to those investigating Nazi institutions.

A large part of the energies of the pre-Nazi cartels in Germany—like that of cartels in all individualist-competitive economies—was directed at interfering with the movement of prices as it might occur in a competitive market. They engaged in activities such as the issuing of instructions to their members concerning conditions of sale, and the fixing of minimum prices below which none of their members could sell. The various measures taken by the Nazi government to control and form prices first seriously curtailed, and later made impossible, these activities. The details of that development will be discussed below.[27] Here it will suffice to mention that as early as May 16, 1934, the power of cartels and similar organizations to regulate prices was seriously curtailed by making all such actions subject to approval by the Price Commissioner. This decree applied not only to prices, but also to rebates and trade margins. When, in November, 1936, the entire German price system was frozen and price changes of any kind could be made only by the Commissioner for the Formation of Prices, the cartels lost every vestige of independent authority in the price-making field. This does not necessarily mean that there were not times when some of the cartels were powerful enough to influence the decisions of the Price Commissioner. On occasion they undoubtedly were, the situation depending upon the specific circumstances, and the issues and personalities involved. But this was not even a shadow of the authority they previously exercised in this area.

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[26] In the fourth year of the war, on October 20, 1942, a new decree concerning monopolistic organizations was released (*Reichsgesetzblatt*, 1942, I, 619). While the legislative measures of 1923 and 1933 referred to cartels only, the new decree gave the government explicit authority over all types of monopolistic or semimonopolistic organizations. While, before, the government had power to establish or dissolve cartels, it now was also given authority to change and modify existing monopolistic organizations at liberty. All these changes, however, were much less significant than it may appear. The government enjoyed, in many different ways, so much power over the economy that it could doubtless have accomplished anything it wanted even before the new decree was issued.

[27] See pp. 219 ff.

Another serious interference with the former activities of the cartels was the result of the government's ever-tightening system of foreign exchange control. Formerly, the "more advanced" forms of cartels attempted to increase the profitability of their members not only through price activities, but by distributing production more efficiently though production quotas, etc. But even before the Nazis imposed their extensive controls throughout the economy, the foreign exchange control system, developed steadily since 1931, seriously interfered with the activities of the more advanced cartels. A particular allocation of foreign exchange could lead to shifts in production among the cartel members, or between the cartel and outsiders. Those unable to obtain sufficient foreign exchange to purchase essential commodities or equipment would be compelled to curtail or discontinue production. Thus control of foreign exchange could be used to discriminate either between cartel members, or for or against outsiders. The difficulties confronting cartels as a result of the foreign exchange situation became even greater in 1934, when the "New Plan" was instituted, and when responsibility for import control was assigned to Supervisory Agencies. The activities of the Supervisory Agencies, which are treated in greater detail in other chapters,[28] soon developed into complete control of foreign *and* domestic raw materials and other commodities. That this strengthened the position of the government and severely limited the activities of cartels which had previously attempted to regulate the production of their members, is readily understandable.

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[28] See pp. 47 ff. and 141 ff.

As a matter of fact, to understand fully the change in the nature and status of cartels, account should be taken of the significant change in economic conditions in Nazi Germany. This change made unnecessary some of the services previously rendered by cartels to their members with regard to price and production control. Originally, one of their chief purposes had been to protect their members during depressions when production ordinarily contracts and price-cutting is rife. In an individualist-competitive economy, it is often asserted, cartels, in search of larger profits and greater stability, frequently deliberately limit production, with an eye to obtaining higher and steadier prices. In Nazi Germany, however, such a policy was neither necessary nor possible for the cartels. The military economy required a continued increase in production. By 1936 most industries were operating at capacity, and the government was driving hard to increase production in vital industries regardless of the cost. The cartels could follow no other course. When to all these factors affecting the position of cartels is added the statutory power granted by the law concerning compulsory cartels, and the power over voluntary cartels accruing to the government from its right to convert them into compulsory cartels at any time, the great leverage possessed by the government in dealing with all cartels becomes quite apparent.

The extent of the government's influence over the cartels was also affected by developments within the structure of the institutions regulating the economy. In 1934 the government began to construct the "Organization of Industry."[29] It will be recalled that the Groups and Chambers which made up this "Organization of Industry" were completely dominated by the government. All enterpreneurs were compelled to belong to the Groups and Chambers, which were run in accordance with the leadership principle, and administered by chairmen appointed, in the last analysis, by the government. Cartels (except compulsory cartels), on the other hand, embraced only those who wished to belong to them and were not run (even the compulsory cartels) in accordance with the leadership principle, but by executives elected by the cartel members. Over a period of years the functions of the Groups, which have previously been described, and the functions of cartels became increasingly similar. Although each of them retained specific functions of its own, they both became semipublic agencies similarly employed by the government in its military program. The distinction sometimes made, to the effect that cartels were marketing organizations which regulated developments "in" the market, while Groups had power "over" the market is artificial. Even in pre-Nazi Germany, many cartels were much more than "marketing" organizations, and when the Nazis seized control, they utilized cartels for regulating capacity, investments, production, the distribution of raw materials and finished goods, etc.

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[29] See pp. 13 ff.

It soon became apparent that the two types of organizations could not continue to exist side by side, both enjoying similar authority. Sooner or later, there was bound to be a struggle for supremacy. There were attempts by the cartels early in the Nazi period to gain control of the enterpreneurial organizations, particularly the Groups, with the hope of being able to exercise the dominant influence in the economy. The fact that cartels often supplied the personnel for the Groups, and that both were therefore often administered by the same personalities was a considerable advantage, to the cartels. But the opposition to their attempt to confuse or merge the "private" cartel organization and the "political" organizations of Groups became quite articulate.[30] Finally, the government was compelled to step in and attempt to clarify their respective jurisdictions. On June 8, 1934, it ordered the Groups to abstain from all cartelizing activities.[31] On June 4, 1935, this instruction was again emphasized by the Department of Economics.[32] But it was not until November 12, 1936, that the government clarified the situation in a definitive manner.[33] Cartels were integrated into the administrative economic hierarchy where they were definitely responsible to the Groups. Since these Groups were completely dominated by the Department of Economics, this transfer of responsibility meant a further and conclusive tightening of the power which the government had acquired over cartels in the two statutes of July, 1933.

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[30] Leonhard Miksch, "Wo herrscht noch freier Wettbewerb," *Die Wirtschaftskurve,* XV (1936), 347, and *Der Deutsche Volkswirt, XI* (1937), 1398 and 1802.

[31] *Kartell-Rundschau,* XXXII (1934), 372.

[32] *Ibid.,* XXXIII (1935), 554.

[33] See p. 34.

The Functions of "Cartels" in the Military and War Economy. From its very inception the Nazi economy has been in a state of violent flux. Its institutions were altered much more rapidly than institutions are wont to change in times of peace. But the changes were not made in terms of any single over-all blueprint, or any single unifying concept. They were shrewd, piecemeal adaptations of old institutions to new situations, adaptations designed to meet rapidly and efficiently particular problems which arose in connection with the development of a military economy. The Nazis borrowed and improvised widely. Their economic institutions reveal characteristics traditionally associated with different types of economic systems. Great pains must therefore be taken to describe the Nazi economy precisely, especially since we are compelled to use categories associated with an economic system which antedates the advent of the Nazis. Where radical changes have taken place, it is difficult to indicate with any degree of precision the extent to which a given institution or a given function has *not* changed. In the case of the cartels, for example, it seems likely that they continued to perform some of their old functions. Even in an absolutist state, organized groups continue to exert pressure on the government bureaucracy. The power to exert such pressure does not vanish with the disappearance of certain legal rights. It may have its source in the reluctance of the bureaucracy to risk certain kinds of change, or in the influence of a particular group upon the government, or in the control by a particular group over certain skills or certain kinds of information and experience. Insofar as cartels were probably consulted about the best ways of accomplishing certain tasks in their own areas, they were in a position to argue, warn, cajole, to press for certain financial terms, for certain terms of delivery, all with an eye to their own advantage. The officers of each cartel undoubtedly attempted to utilize these consultations as opportunities to improve the bargaining position of their respective organizations, just as in pre-Nazi days they strove to improve the market position of their organizations. Furthermore, any impression that the government's ascendancy over the cartels necessarily made cartels financially less profitable should be dispelled. Quite the contrary is possible. Despite their inability to pursue an independent price policy in the old sense, they could increase the earnings of their members in ways which previously had been much less fruitful. The increased stability resulting from the compulsory cartel degree made them much more effective in rationalizing industry, in distributing production according to the specific efficiencies of individual enterprises, and in exchanging experiences and methods of production. In these various ways the cartels continued to render to their members some of the services which they had rendered in the days before 1933. These were activities which could be profitably pursued with skill and cunning even within the framework of the highly regulated Nazi economy.

More important for our purposes, however, are the changes which took place under the Nazis in the status and activities of cartels.[34] Cartels, we have suggested, became quasi-government agencies. In this capacity they performed entirely new functions, some of which should be mentioned here, even though the details will often be found in other chapters. Very important, for example, was the fact that in certain industries compulsory cartels were used for preventing an increase in productive equipment, and for regulating the use of existing capacity.[35] The organization of cartels was of great help to the Office of Price Formation in administering prices, to the Supervisory Agencies in regulating allocation and use of raw materials and other commodities,[36] and to the government as a whole in distributing its orders and in general in conducting its planned economy. Cartels were also used in building up new industries, a function they performed by serving as agencies through which the financial resources of independent enterprises could be compulsorily pooled. Compulsory cartels, for example, were created for the development of industries producing synthetic benzine and cellulose fiber. Finally, a special kind of cartel, the calculation cartel, should be mentioned, not because it was unknown before, but because in the hands of the Nazis, it took on a special significance. The Nazi government devoted a good deal of attention to the problem of unifying and improving the methods of cost accounting. Since calculation cartels exist in virtue of a contractual agreement compelling members to use special accounting forms for calculating their cost of production, to report deviations from the cost sheets, to add to cost of production a fixed percentage for overhead and profits, etc.,[37] they were bound to play an increasingly important role in any movement to unify cost-accounting procedure.

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[34] For a candid and interesting discussion of the change in the status of cartels, see Leonhard Miksch, "Was wird aus den Kartellen," *Die Wirtschaftskurve*, XXII (1943), 30 ff.

[35] See pp. 156 f.

[36] Leonhard Miksch, "Bewirtschaftungskartelle," *Die Wirtschaftskurve*, XIX (1940), 24 ff.

As a by-product of the numerous developments at the hands of the Nazis, another significant change must be recorded, a change not really in the function of the cartels but in their functioning. Even in pre-Nazi Germany cartels must have wanted to rationalize production and increase the efficiency of their members. But despite frequent contentions to the contrary, they rarely succeeded. Unlike concerns and trusts which were ideal business organizations for purposes of rationalization, cartels under the Weimar Republic were too unstable to allow for large-scale group action. There were no assurances that the membership of a given cartel would remain intact after the expiration of the contract, or that new outsiders would not appear and change the market situation. In fact, Section 8 of the Cartel Decree, which made it possible for cartel members, with sufficient reason to warrant their action, to withdraw from cartels at any time, without notice, and Section 9, which made the application of boycotts against outsiders very risky, increased the uncertainty confronting cartel managements. They were, therefore, often in no position to embark upon large-scale rationalization measures which would have involved the establishment of a more carefully planned division of labor, and of a common working arrangement among cartel members for a number of years. But the various legislative, administrative, and functional changes after 1933 removed many of the previous obstacles to large-scale rationalization. The creation of compulsory cartels and the ever-present power to reorganize voluntary cartels on a compulsory basis increased the stability of cartels considerably.[38] Moreover, the change in economic conditions, to which we called attention and emphasized in the preceding section, promising as it did, a continuation of a sellers' market in many industries for some time to come, eliminated an important source of insecurity to the pre-Nazi cartels, namely, the fear of particularly severe outsider competition brought on by depressions. The confidence inspired by these changes made feasible a more radical and effective policy of rationalization and standardization by the cartels, a policy encouraged and utilized by a government increasingly interested in improving efficiency and enlarging output.

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[37] For a detailed analysis, see Leonhard Miksch, "Kalkulationskartell und Kalkulationskontrolle," *Die Wirtschaftskurve*, XVI (1937), 208 ff.

Two other developments involving cartels should be mentioned because they make obvious that during the war new types of industrial organizations became necessary for the conduct of the planned economy. A few days after the beginning of hostilities, the Decree concerning Community Works,[39] in which the Department of Economics was authorized to combine enterprises and cartels for the purpose of community objectives of an economic or technical character, was released. The new decree was obviously expected to be used for industries which had failed to abolish overcapacity or develop efficient organization.[40] The decree went further than the Compulsory Cartel Act of 1933. Whereas the latter empowered the government to restrict capacity and prohibit plant expansion, the new decree gave the government authority to forbid members of community works to continue their normal activities (in which case an indemnity would be paid), and to compel them to undertake a completely new type of occupation or engage in a different kind or new method of production. Although, until the end of 1942, the decree was applied in only few cases, it may have had the results that were expected. Shortly after its publication, it was felt by a competent author[41] that it would probably be seldom used since the mere existence of such legal possibilities was usually sufficient to bring about voluntary arrangements having the desired effect.

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[38] Compulsory cartels could not dissolve themselves the way private cartels could (see Strauss, *op. cit.*, p. 521).

[39] Decree concerning Community Works in Industry of Sept. 4, 1939 (*Reichsgesetzblatt*, 1939, I, 1621).

[40] Franz Kluge, "Reichsvereinigungen," *Die Deutsche Volkswirtschaft*, 1942, p. 561.

Of much greater significance was another type of industrial organization which was first set up in 1941. Cartels, organizing parts of industries on a geographical or functional basis, no longer sufficed. Planning and directing the economy during the war necessitated institutions which co-ordinated entire industries. The new industrial organization, based on both the Compulsory Cartel Law and the Decree concerning Community Works, was the Reich Association (Reichsvereinigung), sometimes called "Super-Cartel." The name indicates that the scope of the new organization went far beyond that of regular or compulsory cartels. In setting up Reich Associations, the government, as in so many other instances, sought to increase the concentration of industrial power. Not only were Reich Associations much more inclusive than cartels—they were sometimes actually vertical organizations[42]—but, vertical or horizontal, they were dominated by the leadership principle which, it may be recalled, did not operate in cartels. The chairmen of Reich Associations enjoyed broad powers of administration and management. Every vestige of free membership associations was abolished. Absolute obedience was required from the members. They had to submit their enterprises to examination and had to furnish any information that might be requested. Compliance with instructions issued by the chairmen was rigorously enforced by threat of punishment. Membership was compulsory for all individual enterpreneurs, cartels, and similar organizations in a specific industry. Some of the existing cartels which had to join were to be reorganized, others to be dissolved. Since outsiders were not permitted, the Reich Associations comprised actually every manufacturing or trading unit in a given industry. Chairman and vice-chairman were appointed, or approved of, by the Department of Economics. The chairmen were assisted by Advisory Boards. Power ultimately rested with the Department of Economics, to which the Advisory Boards could appeal from decisions of chairmen. The Reich Associations had primarily two sets of functions:[43] to serve the government as executive organs in the conduct of its economic policies, and to improve industrial productivity as much as possible. To accomplish these objectives, Reich Associations enjoyed broad powers over production, processing, distribution, storage, prices, and conditions of sale, and were to pay special attention to reorganization of industries, improvement of qualities, and development of standardization. The functions of each Reich Association were described in detail in a special decree which was issued whenever a new association was set up. Although differences existed from industry to industry, the general pattern was the same everywhere. Entire industries were legally converted into organizations which could commandeer their constituent parts with great ease. Their establishment, no doubt, was a great administrative improvement and made it easier for the government to control and direct industries. Reich Associations were created for some of the most important industries, such as coal, oil, textile, and chemicals.

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[41] Leonhard Miksch, "Die deutsche Kriegswirtschaft," *Die Wirtschaftskurve,* XVIII (1939), 334.

[42] *Die Wirtschaftskurve,* XXI (1942), 198.

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[43] *Die Deutsche Volkswirtschaft,* 1942, p. 333.

Chapter 4

The Institutions Regulating Agriculture

THE DEVELOPMENT OF GOVERNMENT INTERFERENCE, 84. THE REICH FOOD ESTATE, 89—Legislation, 89; Administrative Structure, 90; The Functional Organization of the "Market," 93; The Territorial Organization of the "Market," 97. GOVERNMENT AGENCIES OF CONTROL, 99. CHANGES IN THE REGULATORY MACHINERY AFTER THE OUTBREAK OF WAR, 101. THE TECHNIQUES OF CONTROL, 104.

The Development of Government Interference

The Agricultural sector of the Nazi economy was in many respects the most highly regulated of the German economic system. A comprehensive treatment would take us back to policies inaugurated by Bismarck and into a detailed history of the special circumstances which affected the development thereafter. Since this study is concerned primarily with the changes wrought by the Nazis, we must neglect most of the interesting historical material. We shall, however, mention some of the high lights of the past in order that the developments since 1933 may be seen in proper perspective. In the late seventies of the last century, when overseas competition endangered the profitability of German agriculture and increased the country's dependence upon foreign nations, protectionism was reintroduced for economic and military reasons. It proved to be no panacea. Not only did it give rise to difficulties of its own, but it failed to meet the old ones. For years before the advent of the Nazis the country produced surpluses of certain agricultural products, such as rye, hay, certain types of potatoes, and sugar beets, while it failed to satisfy the country's growing demand for others, such as wheat, dairy products, fodder, vegetables, and vegetable oils.[1] In the period between the two World Wars, it became clear that the attempts to cope with these problems by resort to the tariff alone, or to an intricate combination of tariffs and subsidies, was doomed to failure. Germany, like the other countries of the world, had to turn to new techniques and expedients. For Germany it meant making use of such techniques as price stabilization, compulsory cartels and syndicates supervised by the government, state export monopolies, and compulsion to use or admixture specific farm products. A few examples will suggest the nature of the development.

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[1] For the following, see Max Sering, *Deutsche Agrarpolitik auf geschichtlicher und landeskundlicher Grundlage* (Leipzig, 1934), *passim.*

In order to curtail the supply of sugar and prevent price declines in the domestic market, the sugar refineries organized in 1926 an export association which imposed export obligations upon its members. The hope that the oversupply resulting from an increase both of the acreage and productivity in the cultivation of sugar beets would thus disappear did not materialize. When, in addition, the domestic demand for sugar declined, during the 1929 depression, a compulsory cartel of all enterprises producing sugar or processing sugar beets was formed in 1931. Instead of depending on the price mechanism to adjust supply to the declining demand through reduced prices—an adjustment which frequently does not take place partly because farmers often increase production in the face of falling prices—the cartel kept the price of sugar beets stable and reduced acreage of sugar beets indirectly by assigning to all beet-processing enterprises quotas for the purchase of sugar beets. In 1929 the government began to intervene in the market for grain in ways other than tariff manipulation. It bought rye and oats at high prices, made some of the rye unfit for human consumption and sold it as fodder at low prices. In order to supervise the use of such fodder by chicken farmers, and in order to facilitate the standardization of eggs required by foreign competition, the government encouraged the creation of egg-selling co-operatives. The tariff on wheat used as chicken fodder was rescinded, but rates were steadily raised on wheat used for all other purposes. To make sure that the tariff served its function of encouraging the production of wheat at home, flour mills were compelled to consume certain quantities of domestically produced wheat. In 1930 the Reich Milk Law authorized state governments to organize milk producers and milk processors into associations which were to regulate the marketing of milk and milk products, a development which served as a model for later Nazi action. During that same year, the most extreme pre-Nazi control measure, the establishment of a state monopoly for corn, was put into effect.

These are a few examples of government intervention which pushed the tariff into the background as a protectionist device. "The objectives," declared Sering, the outstanding German agricultural economist of the time, "were not revolutionary, but the methods were."[2] What was revolutionary, actually, was the growing recognition by people in responsible positions that more effective influence over agricultural prices and farm incomes might require direct control of production and distribution. When the Nazis seized power in 1933, a comprehensive control mechanism for coping with the intricate problems of agricultural markets had not yet been provided, but beginnings had been made in many directions. The Nazi government had only to take up the task where their predecessors had left off, and this they did with fresh zeal and new purpose.

Even if the Nazi ideology had been different from what it actually was, and even if Nazi political objectives had not necessitated complete government regulation of the entire economy, the Nazi government would in all probability have been compelled to retain and even amplify many of the agricultural policies which it inherited. Its ideology and political military aims provided added stimulus. As a result, a completely planned economy was projected in agriculture, and the traditional market mechanism for producing and distributing agricultural commodities was thrown into disuse. Self-sufficiency in food became a political dogma behind which lurked the stark reality of Nazi preparation for war. The lessons of the first World War had not been wasted on the Nazis, and one of the most important of them was the desirability of maximum independence of foreign food supplies in the event of hostilities. War was probable, they knew, for they were determined to conquer what they could not get by the mere threat of war. They proceeded, therefore, with the single-mindedness of purpose that characterized so many other activities, to prepare the agricultural sector of the economy for the strains of armed conflict. In the six years before the invasion

[2] *Ibid.*, p. 159.

of Poland they shifted as much of their international trade as possible to countries with which they expected to maintain commercial relations in the event of war, they accumulated large stocks of agricultural commodities, and they exerted every effort to increase the domestic production of scarce commodities, by increasing productivity, expanding acreage, and shifting land from crops in which the country produced surpluses. Their task was not easy. The traditional German tariff policy, with its emphasis upon the few staples—particularly rye—had created price relationships among agricultural commodities which complicated the problem of reorganizing agriculture in the direction of greater self-sufficiency. These price relationships had to be changed without endangering the rest of the Nazi program. Before long the problems ramified, and the government decided to dominate every institution in the economy that had anything to do with producing, processing, distributing, or storing agricultural commodities.

The regulatory institutions developed in the agricultural sector in connection with the Nazi ideology and plans for military conquest will be described in this chapter. As in other parts of this study, we must restrict our treatment to a single sector of the economy, treating it as a separate entity, as if other legislative and administrative developments in no way affected it. We shall concentrate on the laws which created and elaborated the Reich Food Estate (Reichsnährstand), the supreme regulatory body for agriculture. Many other statutes[3] which affected economic and social conditions in agriculture bore only indirectly on the problem of control. We shall mention two of them which seem particularly important.

For years, one of the most persistent and vexing problems of German agriculture was the problem of indebtedness. If the farmers were to be willing and effective instruments of the military economy, they would have to be relieved of their debt burden, or at least some of it. This was the purpose of one of the earliest Nazi statutes, the Law of June 1, 1933,[4] through which some of the debts were completely taken over by the Reich, and which made provisions for the reduction of others, for extended amortization, and for reduction of interest rates. In all these cases debtors or creditors received financial assistance from the Reich. Another law affecting agricultural indebtedness, but having much wider consequences, was the Reich Hereditary Farm Law (Reichserbhofgesetz) of September 29, 1933,[5] a curious amalgam of mysticism and realism. It reorganized the system of landed property by creating "hereditary homesteads," indivisible, inalienable, unmortgageable pieces of property large enough to provide the owner and his family with a livelihood, but not to exceed a certain prescribed acreage. A "hereditary farm" was treated as a privilege conferred upon professionally and "racially" qualified German citizens, who were obliged to pass the farm on to a single heir, a son, some other heir, or some suitable person designated by a court created to rule upon questions which arose in connection with the Hereditary Farm Law. This piece of legislation was designed to serve many purposes. It met the problem of indebtedness by providing that old debts on hereditary farms could be met either by converting them into uncallable fifty-two year amortization loans, or by use of negotiable bonds issued by the Central Agricultural Bank. In addition, heirs were forbidden to create any new indebtedness for the purpose of satisfying the claims of coheirs, a practice which heretofore had been responsible for much of the mortgage burden in agriculture. The inheritance provisions were intended to keep all the arable land under cultivation and to put an end to the subdivision of farm land into small units, the inevitable result of parceling it out to numerous heirs. A characteristic Nazi comment summarized the situation as follows:[6] "About 40 per cent of German land or about 700,000 farms have been taken off the capitalist real estate market for good and have been restored to the rule of permanency, order, effort, and duty."[7]

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[3] *Wochenbericht des Instituts für Konjunkturforschung,* XI (1938), 72-74.

[4] *Reichsgesetzblatt,* 1933, I, 331.

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[5] *Ibid.*, 1933, I, 685.

[6] Herbert Backe, "Agrarpolitik und Vierjahresplan," *Jahrbuch für nationalsozialistische Wirtschaft* (Stuttgart, 1937), p. 208.

[7] For further statistical material, see *Wirtschaft und Statistik*, XIX (1939), 166-168. If the many very small farms which did not contribute much to the total marketable supply of the country (outside of production for their own use) are disregarded, the percentage of land owned by hereditary homesteads in the total farm land under cultivation was much greater.

THE REICH FOOD ESTATE

Legislation. Although the organization erected to control and regulate the production and distribution of agricultural products was much more comprehensive than the "Organization of Industry," described in a previous chapter, the two had much in common. Both had roots in the past, in the pre-Nazi enterpreneurial bodies. Neither had been created at a single stroke, both having been developed gradually to fit the needs of the unfolding military economy. Both were organized on a territorial and functional basis. Just as the industrial organization was alleged to be a combination of free enterpreneurial initiative and government direction, so the agricultural organization was supposed to be a combination of the free activity of all those engaged in agriculture and government control. Actually, the agricultural sector was the most tightly knit part of the Nazi economy, completely dominated by government agencies. There was not a single agricultural product that was not rigidly controlled by some section of the Reich Food Estate.

The Reich Food Estate, according to the original Act of September 13, 1933,[8] was to represent "agriculture" in the widest possible sense. Besides agriculture proper, forestry,[9] horticulture, viniculture, fisheries, huntings, agricultural co-operatives, whole and retail trade in agricultural commodities, and industries processing farm products[10] were to belong to the Reich Food Estate. Membership in the Reich Food Estate was compulsory for (1) all persons in Germany who were active as owners, landlords, tenants, or farmers of agricultural land or enterprise, including family members, workers, and employees; (2) all agricultural cooperatives; (3) all individuals and corporations engaged in wholesale trade, retail trade, processing, and converting of agricultural products; and (4) all the agricultural associations, which will be mentioned below. The Reich Food Estate and a number of its subsidiaries were institutions of public law. Membership fees, like federal taxes, were collected by the Collectors of Internal Revenue.

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[8] The structure of the Reich Food Estate is laid down in various legislative measures. First came the Enabling Act of July 15, 1933 *(Reichsgesetzblatt,* 1933, I, 495*)*, in which exclusive authority in matters of agricultural organization was vested in the Reich government. This law made it impossible for any state to interfere and provided a basis for a new agricultural organization on a national basis. A few months later, the Law concerning the Preliminary Organization of the Reich Food Estate and Measures to Regulate the Market for, and Prices of, Agricultural Commodities (Gesetz über den vorläufigen Aufbau des Reichsnährstandes und Massnahmen zur Markt—und Preisregelung für landwirtschaftliche Erzeugnisse) of Sept. 13, 1933 *(Reichsgesetzblatt,* 1933, I, 626*)* was passed. This law gave the Department of Agriculture the power to erect the Reich Food Estate. Four additional decrees dealt with the organizational details of the Reich Food Estate. The first, of Dec. 8, 1933 *(Reichsgesetzblatt,* 1933, I, 1060*)*, dealt with the definition, membership, financing, powers, and leadership of the Estate; the second, of Jan. 15, 1934 *(Reichsgesetzblatt,* 1934, I, 32), with the incorporation of the agricultural co-operative societies into the Estate; the third, of Feb. 16, 1934 (*Reichsgesetzblatt,* 1934, I, 100), with the integration of agricultural commerce and industry into the Estate, and the fourth, of Feb. 4, 1935 (*Reichsgesetzblatt,* 1935, I, 170), established in its final form the organizational structure of the Estate in the field of market regulation.

[9] Through various decrees, the first of which was issued in July, 1934, all matters relating to forestry and game were separated from the Reich Food Estate and were transferred to the Reich Forestry Board, which was given authority on Oct. 16, 1935 *(Reichsgesetzblatt,* 1935, I, 1239*)* to set up its own organization for the regulation of production, distribution, prices, and price margins.

The law describes the objectives of the Reich Food Estate as being "to unite those belonging to it, in a spirit of responsibility towards the nation, to make them a source of vital power for the upbuilding, maintaining, and strengthening of the German people." This was the verbal dressing for the determination of the Nazi government to integrate all activities related to agriculture and to create a powerful instrument for centralized control over the food resources of the nation. The Reich Food Estate was that instrument; the tremendous powers granted to it could be delegated to subsidiary agencies. With the right to issue orders that had the force of law, with power to discipline and impose fines up to 100,000 reichsmarks, the Estate was subordinate only to the Department of Agriculture, which supervised and controlled its activities. It should be noticed, however, that the two organizations were closely tied to each other, for the Leader of the Reich Food Estate was nobody but the Secretary of Agriculture himself. There can be no doubt that the Estate was part of the Department for all practical purposes.

Administrative Structure. The head of the Reich Food Es-

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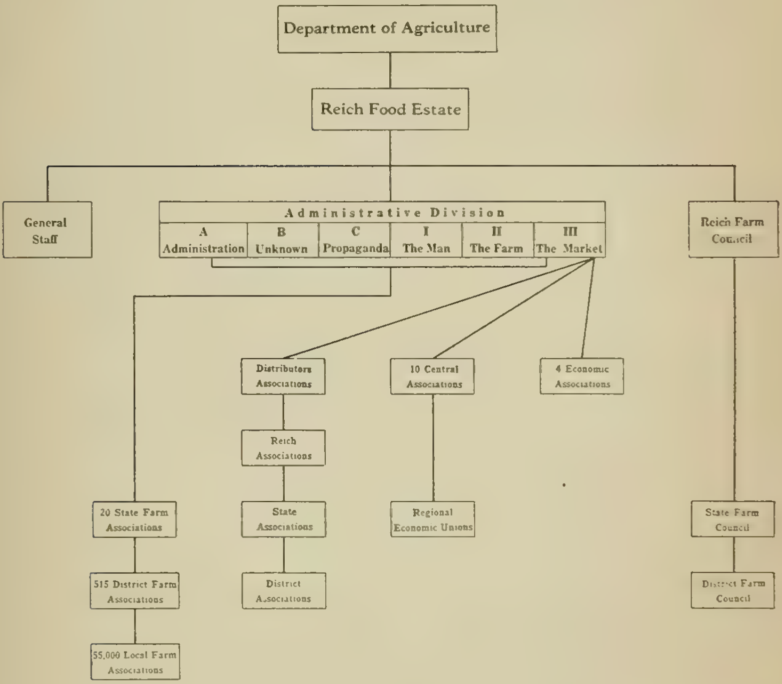
[10] Jurisdictional problems arose between agricultural and nonagricultural bodies with regard to industries processing or converting farm products. A solution was found by defining agricultural commodities as those products which fell within the jurisdiction of the Department of Agriculture, after they were processed or converted. Therefore, industries such as meat packing, breweries, fish canneries, and sugar refineries belonged to the Reich Food Estate, while tobacco, leather, and textile industries held membership in nonagricultural entrepreneurial associations. In the case of handicraft enterprises, membership in both agricultural and handicraft associations was permissible. This was true, for instance, in the case of butchers and bakers (see Bernhard Mehrens, *Die Marktordnung des Reichsnährstandes*, Berlin, 1938, p. 6; see also Claire Russell, "Die Marktordnung im Reichsnährstand," *Zeitschrift für die gesamte Staatswissenschaft*, XCVI, 1936, 695).

INSTITUTIONS REGULATING AGRICULTURE

AUGUST, 1939


Department of Agriculture
Reich Food Estate
General Staff
Administrative Division
A Administration
B Unknown
C Propaganda
I The Man
II The Farm
III The Market
Reich Farm Council
Distributors Associations
10 Central Associations
4 Economic Associations
Reich Associations
20 State Farm Associations
State Associations
Regional Economic Unions
State Farm Council
515 District Farm Associations
District Associations
District Farm Council
55,000 Local Farm Associations

tate was the Reich Farm Leader (Reichsbauernführer), appointed by the Chancellor of the Reich and assisted by the Reich Deputy Leader (Reichsobmann) and by an elaborate subsidiary organization.[11] The three most important parts of the organization were (a) the General Staff (Stabsamt), (b) the Administrative Division (Verwaltungsamt), and (c) the Reich Farm Council (Reichsbauernrat). Divided up into sections for specific problems, such as economic, legal, racial, international, and propaganda questions, the General Staff was concerned with matters of fundamental policy and the long-run program. The Farm Council was a hierarchical organization on three levels, Reich, state, and district, and was supposed to advise the leaders of the territorial associations on matters of general policy. Members of the Reich Farm Council were appointed by the Reich Farm Leader for life, usually from among farm leaders and other persons important in the agricultural life of the country, and it was their task to assist the leader. The same was true on other levels. Leaders of Farm Associations on the state and district level were assisted by the State Farm Council (Landesbauernrat) and the District Farm Council (Kreisbauernrat), respectively, which were appointed by those whom they were supposed to assist. If the truth were known, it would likely be found that these "advisory" bodies had no real functions and served largely decorative and propaganda purposes. This was no less true of the annual Farm Congress (Bauerntag), which always met in Goslar and which served as a sounding board for the announcements of Nazi leaders in matters of agricultural policy.

By far the most significant part of the Estate organization was the Administrative Division, which was subdivided into three sections: Section I called "The Man," Section II called "The Farm," and Section III called "The Market." The first section, "The Man," was concerned with educational, cultural, and professional questions, with the problem of farm labor, farm youth, migration from the farm, with the relationship between "leader" and "followers," and the relationship between landlords and tenants.[12] The second section, "The Farm," was concerned with the technical and scientific aspects of agricultural production, and, to some extent, took over the functions of the pre-Nazi professional agricultural organizations, devoting its attention to the improvement of agricultural bookkeeping and management techniques, to taxation problems, to organized experimentation stations, agricultural machines, fairs, and shows. The most important section of the Administrative Division, "The Market," was intrusted with the control of production, converting, processing, and distribution of agricultural commodities (defined very broadly). This section was responsible for what the Nazis called "Marktordnung," a concept that cannot be translated very exactly into English. An official author[13] described "Marktordnung" as "the use of measures affecting production, marketing, prices, and price margins, in order to co-ordinate, under self-rule, but with official guidance, all people and associations which have a hand in securing food for the nation." In other words, the section called "The Market" was the central executive organ of the Reich Food Estate, and was in charge of all agencies exercising control over the production and distribution of agricultural commodities. Seven subsections of "The Market" carried on its administrative tasks. Subsection IIIA dealt with questions of organization; Subsection IIIB, with legal problems; Subsection IIIC, with problems of agricultural credit; Subsection IIID, with statistics and research; Subsections IIIE and IIIF, with the supervision of the internal operations of the Market Associations and the supervision of the conduct of business on individual farms; and Subsection IIIG, with equalization and storage programs, undertaken in co-operation with the Department of Agriculture and the pertinent agricultural associations, in order to smooth peaks in production or consumption. Subsection IIIG also dealt with problems of international trade in agricultural products, recommended imports or exports, and advanced plans for erection of cold-storage facilities. These subsections were further subdivided. Subsection IIID (statistics and research) was made up of IIIDa, specializing in statistics on the supply of commodities; IIIDb, statistics on the movement of commodities; IIIDc, statistics on the demand for commodities, etc.[14] In addition to these seven administrative subsections and their various subdivisions, there were approximately fifteen other subsections in "The Market," fourteen of them corresponding to the Central and Economic Associations described in the next section, each of which was supervised by the appropriate market subsection. The Central and Economic Associations were functional bodies which made up only one part of the organizational structure subordinate to "The Market." The other part was territorial in nature and consisted of state, district, and local Farm Associations.

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[11] See Wolfgang Clauss, *Die deutsche Landwirtschaft* ("Berichte über Landwirtschaft," Sonderheft 148, Berlin, 1939), *passim.*

[12] Hermann Reischle, "Die deutsche Ernährungswirtschaft," *Das dritte Reich im Aufbau* (Berlin, 1939), II, 267.

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[13] Hermann Reischle in *Handwörterbuch der Betriebswirtschaft* (2d ed., Stuttgart, 1939), II, 1383.

The Functional Organization of the "Market." The functional structure subordinate to "The Market" was the basic instrumentality through which the agricultural economy was regimented and controlled. Composed of functional bodies called "Market Associations" (Marktverbände), this structure was erected over a period of years and was not changed during the war. "Market Associations" is actually a misnomer, for the very existence of these bodies testifies that the traditional market had ceased to exist. They were part of a planning machinery designed to replace the market. Market Associations composed of a single group of participants in the agricultural process—producers, or processors and convertors, or distributors—were called "one-stage" organizations.[15] Such were the Economic Associations (Wirtschaftliche Vereinigungen) which were much in evidence in the early period of Nazi experimentation. Market Associations made up of two groups were called "two-stage" organizations, and those made of all three, like the Central Associations (Hauptvereinigungen) and the Regional Economic Unions (Wirtschaftsverbände), were known as "three-stage" organizations.

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[14] The organizational structure of the Administrative Division just described was set up by the reorganization of Feb. 4, 1935. Before that, the Division was more or less a consolidation of the various pre-Nazi agricultural organizations and was subdivided into four sections. Section 1 had taken over the organization and functions of the leading political associations of German agriculture, the Reichslandbund. Section 2 had replaced such semi-official bodies as the Deutsche Landwirtschaftsrat and the Preussische Hauptlandwirtschaftskammer. Section 3 had assumed responsibility for the existing agricultural co-operatives. Only Section 4, which dealt with trade, industry, and handicraft in agricultural commodities, was essentially a new organization (see H. Backe, "Agrar-und Siedlungspolitik," *Jahrbuch für nationalsozialistische Wirtschaft,* Stuttgart, 1937, pp. 15 f.).

[15] See Mehrens, *op. cit.,* p. 18.

Control of agriculture started where it was easiest to intercept and regulate the movement of commodities. Since this is usually the industrial stage, processing or converting, control often began there with the creation of Economic Associations.[16] Control of grain, for instance, was instituted on November 5, 1933, with compulsory cartelization of all flour mills into the Economic Association of Wheat and Rye Flour Mills.[17] In other cases control began with the regulation of distribution. Thus, the Economic Association of Wholesale Trade in Eggs was erected in March, 1934. Many such Economic Associations were created in 1933 and 1934, only to be dissolved a little later when the Central Associations were formed. Only four Economic Associations continued to exist. Three of them, the Association of the Candy Industry, the Association of the Margarine Industry, and the Association of Producers of Mixed Fodders, were "two-stage" organizations with authority to regulate production in the processing and converting stages, trade, prices, and price margins in their respective fields.[18] The fourth, the Flour Mills Association, was a "one-stage" organization, concerned with assigning production quotas to individual mills, admitting new enterprises to the industry, and closing existing enterprises because of "unreliability" of management.

The most important and most efficient organizations were the "three-stage" organizations, the Central Associations and the Regional Economic Unions. Through them a single agency was able to exercise control over each process through which a commodity passed from raw material to final consumption. Subordinate to each Central Association were a number of Regional Economic Unions, the actual executive and administrative agencies of the entire functional agricultural structure. The Central Associations and Regional Economic Unions made up an all-inclusive vertical structure with authority to control every stage in the life of a commodity. The membership of Regional Economic Unions for livestock, for example, included in a particular region all the livestock farmers, dealers in livestock, butchers, producers of and dealers in meat products, processors of fats, and the dealers in entrails. All in all, there were ten Central Associations, one each for grain, livestock and meat products, milk and dairy products, potatoes and potato products, eggs, horticulture, viticulture, hops and breweries, sugar, and fish and fish products. The number of Regional Economic Unions varied and changed from time to time. At the outbreak of war, there were 21 for grain, 23 for livestock, 15 for viticulture, 4 for hops and breweries, etc.[19] Each of the Central Associations acted as a co-ordinating and supervisory agency for the various Regional Economic Unions associated with it, and the control apparatus varied with the specific conditions in each of the ten major branches into which agriculture had been subdivided.

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[16] These organizations were modeled after similar experiments in the pre-Nazi period (see pp. 85 f.).

[17] *Reichsgesetzblatt*, 1933, I, 810.

[18] See Mehrens, *op. cit.*, pp. 33-38

The Market Associations (Central Associations, Economic Associations, and Regional Economic Unions) were institutions of public law, which were not identical with the Reich Food Estate, but incorporated into it.[20] Membership was compulsory for all persons and corporations engaged in agricultural pursuits. "Such an all-inclusive combination," writes an official commentator, "makes violations of agricultural policies pursued by the authorities impossible, at least within the limits of the law."[21] Organized on a hierarchical basis and run in accordance with the leadership principle, the Market Associations were controlled by the Reich Food Estate, which issued their bylaws and could interfere or even repeal measures adopted by them either because the measures were not in harmony with the Estate's instructions or bylaws, or in order to secure uniformity of agricultural policies. The chairmen of the Central Associations and Economic Associations were appointed by the Reich Farm Leader with the consent of the Department of Agriculture, while the chairmen of the Regional Economic Unions were appointed by the chairmen of the Central Associations with the consent of the Reich Farm Leader. All these chairmen were assisted by Boards (Verwaltungsrat) appointed in the same hierarchical manner, which were supposed to be heard before the issuance of orders of a general nature. Although their functions were primarily consultative, they could appeal from decisions taken by chairmen of the various organizations. The chairmen of Central Associations ruled on the appeals from decisions made by the Regional Economic Unions, and the Department of Agriculture on appeals from decisions made by Central Associations. In addition to the Boards, the bylaws of most Market Associations provided for the appointment of special Committees of Experts (Fachausschüsse) by the respective chairman. Their functions, too, were consultative, and they were supposed to represent the interests of economic or entrepreneurial groups including consumers. Such committees were organized, for instance, to advise the market associations in determining prices. It was through these consultative boards and committees that "self-government" in the Reich Food Estate was supposedly achieved. An official commentator puts it as follows: "The government wants to stimulate, but not to regiment, agriculture. Responsible persons active in agriculture are the heads of the Market Associations. The Boards and the Committees of Experts make certain that the points of view of producers, processors, and distributors be not neglected. The aim of the organization is regional decentralization under centralized leadership which issues the chief directives."[22]

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[19] Posse, *Reichsverteidigungsgesetzgebung*, Band 1, V (Allgemeines), p. 27.

[20] Ludwig Gebhard and Hans Merkel, *Das Recht der landwirtschaftlichen Marktordnung* (München, 1937), II, 2-3.

[21] Mehrens, *op. cit.*, p. 28.

The Market Associations enjoyed very broad power derived always from the power of the Reich Food Estate. Their decrees and instructions thus had the force of law, being subject only to the limitations imposed by the leadership principle. Central Associations, as the unifying and co-ordinating agencies on the Reich level, could change or veto decisions of the Regional Economic Unions. Similarly, Central Associations were subject to supervision and interference by the Reich Food Estate and, eventually, by the Department of Agriculture. Violators of the instructions of the Central Associations faced severe punishment, and it was established policy not to pay indemnity to those engaged in agriculture who were adversely affected by their orders. To defray the administrative expenses of the agricultural organizations, the Central Associations were authorized to set fees and impose levies upon their members.

The Market Associations were unique organizations within the Nazi framework. Notwithstanding the repeated assertions to the contrary,[23] they resembled the compulsory cartels and the entrepreneurial associations in industry, for membership in all three was compulsory, and they were all instruments of public policy rather than private organizations pursuing only private interests. But the functional organizations in agriculture enjoyed much more power. Not only did they have jurisdiction over such matters as prices, profit margins, and subsidies, but they were organized vertically so that each Central Association could coordinate an entire industry, and so that the organizational structure as a whole enabled the government to step in at any and every stage from production of raw materials to consumption of final commodities.

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[22] Gebhard and Merkel, *op. cit.*, I, 3.

The Territorial Organization of the "Market." The territorial associations, in which membership was compulsory for the same group of persons and enterprises which belonged to the functional associations, were the administrative field agencies of the Reich Food Estate.[24] As such they did not share the independent legal status of the functional associations, but were subsidiary branches of the Estate. Nazi literature is very sketchy about their functions. Essentially, their task seems to have been to see to it that the thousands of decrees and orders issued by the functional organizations of the Estate be observed. If this interpretation is correct, they must be considered the enforcement agencies of the Reich Food Estate.

The territorial organization, like the functional, emanated from Section III, "The Market." It was developed on three levels: the State Farm Associations (whose authority usually extended over an area defined by the political boundaries of the states or large provinces), the District Farm Associations, and the Local Farm Associations (Landesbauernschaften, Kreisbauernschaften, and Ortsbauernschaften). In 1938 there were twenty state associations, 515 district associations, and 55,000 local associations.[25] Each association was administered by the appropriate

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[23] See, for example, Hermann Reischle, "Die Entwicklung der Marktordnung des Reichsnährstandes in den Jahren, 1935-36," *Jahrbuch für nationalsozialistischen Wirtschaft* (Stuttgart, 1937), p. 217.

[24] See Mehrens, *op. cit.*, p. 8.

[25] The numbers changed a good deal; the figures quoted in the text refer to the situation early in 1938, before the invasion of Austria.

"leader," State Farm Leader, District Farm Leader, or Local Farm Leader, all of whom were appointed by the Reich Farm Leader, subject to the consent of the Gauleiter of the Nazi party, thus enabling the party to influence the choice of administrative personnel in the Reich Food Estate. The State and District Farm Associations were subdivided into three sections corresponding to the three sections of the Administrative Division ("The Man," "The Farm," and "The Market"). "The Market" of the State Farm Associations was divided into subsections, which were counterparts of the functional subsections of "The Market" in the Administrative Division, one for grain, one for livestock and meat products, one for eggs, etc. By having these subsections supervise the corresponding functional associations on the regional level, that is, the Regional Economic Unions, the Nazis co-ordinated the activities of the functional and territorial organizations. This was perfectly feasible in view of the fact that the jurisdiction of the Regional Economic Unions usually coincided with that of the State Farm Associations.

One other group of associations subordinate to "The Market" of the Administrative Division should also be mentioned, the Distributor Associations (Verteilerfachschaften), which were organizations for wholesalers only. Functioning on three levels, the Reich, the State, and the District level (Reichsfachschaft, Landesfachschaft, and Kreisfachschaft), these associations served both the functional and territorial organizations. On the Reich level they were organized in affiliation with the Central Associations; one for each Central Association. Distributor Associations were to advise the Central Associations, the Regional Economic Unions, and the District Farm Associations in all matters concerning trade and commerce in agricultural products, and their own members in all problems of a professional nature, or related to agricultural policy. But their chief task apparently was, as the Nazis declared, to "educate" their members, which probably meant to indoctrinate them with Nazi ideology, to make the minds of members accessible to the logic and implications of a planned agricultural economy with its severe curtailment of the entrepreneurial freedom of farmer and trade. The Nazis apparently encountered a good deal of resistance to their plans for regimenting agricultural trade,[26] and the Distributor Associations were expected "to integrate more efficiently the distributing enterprises into the community of duty and accomplishment represented by the Reich Food Estate."[27]

Government Agencies of Control

A country as dependent upon the importation of agricultural commodities as Germany, and as burdened by an ever-declining supply of foreign exchange, must adapt its internal economy to the possibilities offered by its trade relationships with the outside world. That part of the German agricultural economy which was sustained by imports was not controlled by the Reich Food Estate, but by five special agencies, the organization of which has already been described.[28] These agencies—we have called them "Supervisory Agencies"[29]—were direct administrative bodies of the Department of Agriculture and outside the organization of the Reich Food Estate. There has been a good deal of discussion of this separation of functions, but no practical importance should be assigned to it. Both the Reich Food Estate and the Supervisory Agencies were subordinate to the Department of Agriculture, where policy was ultimately controlled. Export and import control of all kinds was handled by Supervisory Agencies, and since external trade in agricultural commodities involved matters like foreign exchange, which are broader in scope than the immediate agricultural situation, it seems perfectly natural to have special agencies to deal with problems related to international trade relationships. Five of the Supervisory Agencies were concerned solely with agricultural commodities, one each for grain, for oils and fats, for animals and animal products, for eggs, and for horticultural and viticultural products.[30] By concentrating control over the entire agricultural supply from abroad in the hands of the Supervisory Agencies, imports could be adjusted to domestic conditions created by the activities of the Reich Food Estate. Such adjustment took place on a broad basis and affected country of origin, quantity, price, and time of importation; it often required the Supervisory Agencies to take control of the domestic supply of the same commodity.

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[26] See, for instance, Wilhelm Ruper, *Archiv des Reichsnährstandes,* V, (1938), 137.

[27] See Mehrens, *op. cit.,* p. 14.

[28] For details, see pp. 47 ff.

[29] The literal translation of the German name is "Reich Agencies." For reasons explained before (see p. 47, n. 101) we prefer to use the name of "Supervisory Agencies."

[30] They were created at very early dates; for further details, see *Handwörterbuch der Betriebswirtschaft,* II, 1416.

The objectives of Supervisory Agencies were four:[31] (1) to prevent imports which were considered excessive or inopportune at a specific time; (2) to direct supplies into districts which did not produce as much as they needed; (3) to make sure that prices prevailing on foreign markets did not affect the domestic price structure; and (4) to direct and supervise the storing of farm products. The techniques used were fairly simple. Every entrepreneur who intended to import agricultural products had to offer them for sale to the Supervisory Agency which was responsible for the specific commodity. Rejection of the offer by the Supervisory Agency meant that the importation was forbidden. If the offer was accepted, the Supervisory Agency simultaneously resold the same commodity to the importer at a price which would leave the importer an adequate trade margin in selling it at home at the prevailing domestic price. The difference between the price at which the Supervisory Agency had bought and the price at which it sold to the domestic importer was collected by it as a kind of equalization fee which varied with the fluctuations in the two prices and which adjusted the price paid abroad to the domestic price. As part of the resale the Supervisory Agency issued a certificate to the importer permitting him to sell his commodity; often the certificate specified the part of the Reich in which the commodity was to be sold. Similar certificates were released for domestic-grown or domestic-made agricultural commodities when control over them was assumed by the Supervisory Agencies. Since these Agencies were empowered to purchase agricultural commodities in domestic and foreign markets on their own account, and to carry them in their own names, their powers, particularly with regard to the accumulation of stockpiles, were very broad. Add to this the interdependence of various "stages" of the productive and distributive mechanism, which meant that control of one "stage" of the process could be used to control all "stages," and it becomes clear that the Supervisory Agencies could and, as we shall see later,[32] often did issue trade and storage-regulating orders designed to influence indirectly the production or processing of farm products. The fact that the Supervisory Agencies had complete charge of the Nazi food-storage program[33] invites some further comment. As far as agricultural products are concerned, storage is not only important from the point of view of the military program, but is an indispensable part of the system of control. Because of the part that nature plays in agricultural production it is usually impossible to avoid certain, even major, disproportions between supply and demand, disproportions which can be controlled by reducing or increasing accumulated reserves. In addition, storage facilities are indispensable for the adjustment of supply and demand among various territorial areas.

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[31] For the following, see besides Mehrens, *op. cit.*, pp. 39 ff., and other sources quoted before, Willy Meinhold, "Grundlagen der landwirtschaftlichen Marktordnung," *Berichte über Landwirtschaft*, Sonderheft No. 134 (Berlin, 1937), *passim*.

Changes in the Regulatory Machinery after the Outbreak of War

The system of control built up before 1939 was so carefully designed to fulfill the requirements of the military economy that there was no need for any significant changes after the outbreak of war. "There was no necessity of inventing novel methods," writes one commentator, "only of intensifying those which had been tried out and had become familiar before."[34] Those changes which were made were obviously carefully prepared in advance, and their general purpose was allegedly to enlarge the powers of government. To an outsider, the specific purposes of each change remain obscure. Certainly more than an increase of power to the government must have been involved, for the powers enjoyed by the government, even under the prewar system, seem to have been unlimited.

The basic changes after the outbreak of war were released on August 27, 1939.[35] These were the chief developments:

(a) The Reich Food Estate, previously an agency of "self-government," became an administrative section of the Department of Agriculture, thus formally becoming a government agency.

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[32] See pp. 150 ff.

[33] See Mehrens, *op. cit.*, pp. 48-49.

[34] W. Meinhold, "Die deutsche Kriegsernährungswirtschaft," *Jahrbücher für Nationalökonomie und Statistik*, CL (1939), 689.

[35] Decree concerning the Administration of the Economy and Decree concerning the Public Administration of Agricultural Products (*Reichsgesetzblatt*, 1939, I, 1495 and 1521).

(b) In changes analogous to those which took place in Industry, a new state and local apparatus of government[36] was developed through the creation of administrative agencies on the middle and lower levels. Those on the middle level, called State Food Offices (Landes- [Provinzial-] Ernährungsämter), were made divisions of the Governor's office, while those on the lower level, called Food Offices (Ernährungsämter), were made parts of the county office or, in large cities, of the Mayor's office. The heads of both types of office were appointed by the Departments of Agriculture and Interior, which acted jointly and usually chose the State and District Farm Leaders.[37] Unlike the Regional Economic Offices for Industry, which were situated in the cities in which the main regional offices of the army resided, the State Food Offices were located in the capitals of the states and of the chief Prussian provinces. The first concern of these Food Offices on both levels was procurement (Section A) and distribution of food for the civilian population (Section B). Executive duties were assigned to the offices on the lower level, and the State Food Offices supervised and probably co-ordinated the work of the many Food Offices. Inasmuch as the Food Offices were government agencies for enforcement and supervision of individual farmers, they performed functions which heretofore had been intrusted to the territorial associations of the Reich Food Estate. Theirs was the task of seeing to it that farms were efficiently and adequately run, and they were to adopt whatever measures were necessary to facilitate adequate management with regard to livestock, sowing, harvesting, and prompt delivery of products. In all probability this meant that the Food Offices not only enjoyed broad powers to interfere directly in the running of each farm, but that they were charged with the obligation of providing the farms with adequate fodder, labor, utensils, etc., at the proper time. Sections B of the Food Offices were in charge of rationing; they were to determine the quantitative needs of the population, to prepare all the necessary lists and instruments for proper rationing, and to carry through actual distribution to retailers and to the population.

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[36] For a discussion of the basic issues involved and of the changes in industry, see pp. 53 ff.

[37] See Meinhold, *op. cit.*, p. 691.

(c) The territorial associations of the Reich Food Estate, the State and District Farm Associations, were integrated with the newly created State Food Offices and constituted the procurement section of these offices (Section A). In a like manner the functional associations on the middle level, the Regional Economic Unions, were subordinated to the State Food Offices. But the internal organization of these territorial and functional associations remained unchanged.

(d) The Central Associations were given explicit authority to plan and regulate the use and consumption of agricultural commodities under their respective jurisdiction over the entire Reich. They were to provide the military authorities with the supplies of food requested by them and to direct the necessary quantities of farm products to the food processing and converting industries. To guarantee closer co-ordination between Central Associations and military authorities, the Supreme Command of the Armed Forces was given power to delegate a representative to the Boards of Central Associations. The Central Associations were also authorized to engage in business activities on their own account. Those Central Associations which overlapped with Supervisory Agencies for Agriculture were to erect within their administrative organization a new section, the so-called Business Section (Geschäftsabteilung), which was to be a institution of public law into which the Supervisory Agencies for agriculture were to be incorporated. Business Sections, like the Supervisory Agencies before them, could buy, sell, or store agricultural commodities in their own names. Thus ended the dual organizational structure which existed in the functional sector when Central Associations and Supervisory Agencies operated side by side, the former as part of the Reich Food Estate, the latter outside it.

From the foregoing account of developments after the outbreak of war it seems clear that there were no changes of a fundamental nature. The changes which were made merely involved transfer of authority to central government bodies and were significant largely from an administrative point of view. In short, the general administrative apparatus of the Reich for food was tightened in anticipation of a long war.

The Techniques of Control

The objectives of the Nazis in the agricultural sector of the economy have been made clear before. A reduction in Germany's dependence upon foreign countries for food and the accumulation of stock piles of agricultural commodities were basic requirements of her military economy. This was to be achieved at prices which were high enough to stimulate production and, at the same time, stable enough to make the farmer's income secure. But steps were to be taken to prevent a substantial increase in food prices lest they impair the real incomes of the wage and salary earners busy constructing the huge military machine.

It was a difficult task. From the very beginning the Nazi government realized that success would require complete regimentation and detailed control over every aspect of agricultural life; hence, their control mechanism in agriculture was, at an early date, much further developed than anywhere else. An intricate system of decrees and regulations which accompanied farm commodities from original production or import until their final consumption completely replaced the price and market mechanism of the traditional economy. This system of decrees embodied two types of control techniques. There were regulations affecting the productive and distributive mechanism directly, such as permits or prohibitions to produce, and those which acted indirectly by determining prices or price relationships. By controlling prices in different stages of the productive process, by changing the price relationship between specific commodities, and by using price changes accompanied by subsidies, as positive or negative incentives to farmers and enterpreneurs, a great deal of indirect influence could be exercised over the agricultural economy. Indirect and direct measures were frequently used together to supplement and reinforce each other. Thus, for example, the enforcement of price rulings was often facilitated by direct control of conditions of production and distribution, or by regulating the supply or demand of specific commodities or of specific enterpreneurs. In a similar manner, indirect methods often supplemented direct. In subsequent chapters more attention will be given to the great variety of devices through which these two types of control were made effective.[38] The Market Associations of the Reich Food Estate were the chief executive and administrative organs of control, regulating production, processing, marketing, use, distribution, and storage of all agricultural commodities; determining prices, price margins, or cost schedules for producers, processors or convertors, and distributors; issuing instructions concerning shipping, packing, storing, and grading of agricultural products, as well as the conditions of sale and payment; determining the extent to which existing capacity in agricultural enterprises should be utilized, whether such capacity should be permanently eliminated or whether the composition of existing production schedules should be changed; ruling upon the advisability of reopening closed establishments, or investing for new ones.[39] Originally, Market Associations exercised their control largely through general orders, but they soon had to interfere more and more with the business of individual farmers and enterprises, for the conditions of agriculture were so complicated that regimentation for specific objectives often required very specialized and individualized rulings. To an increasing extent, purchase, sales, or delivery orders established a direct compulsory relationship between two individual enterprises.[40] These individual relationships frequently operated within "closed areas" *(geschlossene Wirtschaftsgebiete)*, that is, certain geographical areas were ordered to buy from, or sell to, other geographical areas.[41] This system of channeling supply or demand was frequently employed to regulate the food supply of large consuming centers, or the raw material supply of processing industries. The techniques employed varied from designating deficit areas to which surplus areas had to sell, or designating surplus areas from which a deficit area had to buy, or setting up a compulsory delivery relationship between a surplus and a deficit area, or between given producers in one area and given dealers or processors in another, to orders to deliver products to certain collecting stations *(Sammelstellen)* from which further distribution was to be affected. It was not unusual to have these various orders supplemented by specific delivery or purchase quotas.[42] Closed areas frequently coincided with the territory under the jurisdiction of individual Regional Economic Unions, and on occasion special permits were issued to permit trade outside the fixed sales (surplus) or purchase (deficit) areas.

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[38] See Chapters 6 and 8.

[39] Regarding the prerogatives of Market Associations just enumerated, see Section 8 of the Decree concerning the Control Association of the German Milk Industry of April 17, 1936 *(Reichsgesetzblatt*, I, 1936, 374*)*.

[40] See Russell, *op. cit.*, pp. 716 and 729.

[41] See Günther Keiser, "Wie der Nährstand arbeitet," *Die Wirtschaftskurve*, XV (1936), 129-130.

Mention should finally be made of the attempts to control quality in the agricultural economy, an essential corollary to direct intervention and price regulation. Without quality control direct and indirect regulations can be circumvented with serious consequences for the entire structure of control. The Nazis, aware of this danger, issued detailed standard specifications for certain commodities, for flour according to the ash percentage in various flour types, for milk according to the fat content, for eggs according to weight, etc. Where such objective measurements were not available, a variety of control techniques was used, including individual appraisal of livestock through specially appointed grading commissions. Unification, simplification, standardization, and limitation of existing qualities, grades, and brands were attempted and achieved,[43] and compulsory quality tests were introduced to enforce the developing system of regulated standards.[44]

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[42] See pp. 150-152.

[43] For a brief, but comprehensive, analysis, see Keiser, *op. cit.*, pp. 125-126.

[44] *Handwörterbuch der Betriebswirtschaft*, II, 1389.

Chapter 5

Control of Money and Banking

THE PROBLEM OF BANKING AND MONETARY POLICY IN THE MILITARY ECONOMY, 107. CREDIT CONTROL IN GERMANY BEFORE 1933, 113. LEGISLATION UNDER THE NAZIS, 114—The Reichsbank, 114; The Credit and Banking Institutions (Other than the Reichsbank), 117; The Credit Act of 1934, 119; The Supervisory Institutions, 119; The Significance of the Credit Act, 120; Foreign Exchange Control, 123. SPECIAL MEASURES AFFECTING THE CAPITAL MARKET, 127.

The Problem of Banking and Monetary Policy in the Military Economy

As the Nazi military program developed, government control over the economy deepened. Investment and production were subject to *direct* control, and every sector of the economy acquired a network of regulatory institutions to transmit and enforce the increasingly far-reaching directives of the central economic command. To an economic system which had previously functioned on the basis of the interplay between prices (in the broadest sense) and profits, these were revolutionary changes bound to affect profoundly the existing system of money and banking. Under the impact of spreading direct controls, the money and banking mechanism was compelled to relinquish the position it had occupied as the nerve center of the traditional capitalist economy. The money and capital market characteristic of that economy all but disappeared, and credit institutions were shorn of much of their power. In an article published in January, 1938, a leading Nazi banker with a great deal of political influence, candidly called attention to the change in the position of the banks, and, indirectly, to some of the other changes. "The banks," he wrote, "can hardly decide on their own any longer which services to render to the entire economy. Their opportunities for service depend on the ever-changing requests which are made of them, depending upon the general situation in the economy. The more the capital market as well as the entire economic development are regulated and influenced by the central government, the more the use of bank credit and the volume to be used depend upon decisions which the banks cannot influence directly."[1]

In our own research we have found ample verification of that statement. The material of this chapter will show that the change in relationship between government and economic institutions, that marked the rest of the Nazi development, also characterized the development in money and banking, and that the accumulation and exercise of power by the government left the money and banking institutions with few of their traditional functions and prerogatives. When it is recalled that the authority of the German government over credit institutions, particularly banks, was very much limited before 1931, the extent and significance of the change to complete government domination become quite apparent. To make clear the more important aspects of this change, we shall first briefly contrast some of the basic characteristics of the banking system in a traditional capitalist system and in the Nazi economy.

In the traditional capitalist economy, funds are distributed through a market mechanism. "The money and capital market" is the institution that brings together the supply of funds offered by credit organizations (a supply determined by the amount that can be attracted at current rates of interest, and by the willingness and ability of commercial banks to create deposits) and the demand for funds by potential investors (a demand determined by current interest rates and the expected profit possibilities in the economy). It is the institution which assimilates the innumerable investment decisions of individuals and credit organizations, and allocates the available funds. Wherever the market mechanism is the allocating instrument, the final distribution is a resultant, which embodies no previously formulated program. The individual is free to act to his *own* advantage, unrestricted by the requirements of any total or over-all plan. Under this system credit institutions occupy a strategic position. As the sole arbiters over the use of their loanable funds, they have great influence over new investment. They are the ones who make the decisions that eventually determine the amount of money and capital loaned out at any given time, that determine its distribution among individual borrowers, and between the money and capital market. In making their decisions, they are guided by their judgment as to the potential profitability of a given undertaking, the risk entailed, their own individual liquidity position, and the movement of interest rates, all of which play an important part in the complicated process by which the market mechanism co-ordinates all the various investment decisions.

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[1] Friedrich Reinhart, "Bankgewerbe vor neuen Aufgaben," *Bank-Archiv*, XXXVII (1938), 137 ff.

To the Nazis, preparing for total war, the entire mechanism was obsolete. Instead of leaving it to interest rates and the deposit-creating decisions of the banking system to determine the volume of funds available for short- and long-term use, the German government saw to it that the Central Bank and other credit institutions provided whatever funds were considered necessary. Instead of permitting the market mechanism to set interest rates, the government fixed them in terms of military requirements. Instead of depending upon the mechanism of the market for the allocation of funds, the government used special devices to syphon accumulated funds into desired channels. Various direct controls made new private investment through the capital market either completely impossible or subject to government approval. Credit institutions in the capital market found their status completely altered. Instead of making important investment decisions, and determining the use to which their funds was to be put, they merely had to provide the technical facilities for covering government expenditure or financing new investment, the volume and composition of which had been previously settled by the government. Institutions in the money market did not fare much better. There the banks may have retained a little more authority, but the changes in their prerogatives, and the limitation upon their authority were drastic. In neither the money nor the capital market did interest rates, anticipated profits, or the entrepreneurial judgment of individual industrialists and bankers have much to do with investment decisions. It was the government that determined the volume and composition of new capital investment and production, that allocated the raw materials and labor necessary for the execution of the investment and production plans, that became increasingly responsible for the quantity and distribution of industrial and agricultural production—and all with an eye on the requirements of its military program. With such a government, sufficiently powerful and willing to determine not only the amount of credit to be made available to the entire economy at any given time, but also the types of borrowers and terms of credit, the meaning and significance of credit control as we have known it in the past underwent a profound change, a change affecting both its techniques and its objectives.

In a traditional capitalist system the term "credit control" refers to all the measures and devices used by central agencies to encourage a wider use of credit facilities or to curtail the amount of available credit in the economy. It may be quantitative or qualitative. Credit control is said to be qualitative when the authorities exercising that control discriminate between the uses to which the credit may be put, and attempt to influence its use for one purpose rather than another. It involves deliberate discrimination against borrowing for certain purposes through an outright refusal to grant credit to a particular kind of borrower. Most credit control in traditional capitalist economies of the past has been quantitative, influencing the total quantity of loanable funds rather than the direction of their use. The most common and oldest device is bank-rate manipulation. More recently, open-market operations by Central Banks, and legislation fixing minimum reserve requirements have played an increasingly important part. Another method of control, one which has qualitative possibilities, is the power of the Central Bank to refrain from purchasing the full amount of commercial bills offered for rediscount, or to refuse to grant the full amount of credit against collateral requested of it. All these devices had this in common: the authorities cannot know just how effective their policy will be. They can be sure that it is possible to restrict credit during a period of expansion, but experience has taught them that it is much more difficult to increase its use during a depression.

The changes in technique introduced by the Nazis were clearly designed to make credit control more direct and qualitative than ever before, and thereby more effective. The pre-Nazi Reichsbank was converted into an institution able to determine, at the behest of the government, not only the total volume of credit to be supplied, but also the use to be made of it. Just as radical was the change in the objectives of credit control. For a long time, credit control was largely synonymous with credit restriction. It is only in the last few decades that governments have become increasingly conscious of the possibility of employing the credit mechanism to stimulate business recovery. During all these years the primary objective of credit control was the maintenance of the gold standard, or, in the case of a country operating on an inconvertible paper standard, the maintenance of a certain relationship between the domestic currency and foreign currencies. Given these objectives, both standards tied the domestic currency to other currencies in the international money market and made it difficult for governments to pursue an independent credit policy that would fit the needs of their domestic situation. In Germany, where memories of the hyper-inflation of 1923 festered, this lack of independence manifested itself in the reluctance of currency officials to pursue any credit policy which might lead to a loss of confidence in the mark, to the accompanying flight from it and to the resulting threat to its stability. All this disappeared under the Nazis. The abandonment of the gold standard in 1931, and the subsequent development of a highly effective system of foreign exchange control, enabled the Nazis, on the one hand, to establish any relationship they might have desired between foreign currencies and the mark; and on the other hand, to pursue any kind of domestic credit policy without fear of upsetting that relationship. The so-called automatic link between the German currency and the currencies of the rest of the world has been abolished. That this removed a host of real and imaginary barriers to credit expansion, and meant a change in the objectives of credit policy is implicit in statements of Dr. Schacht, then President of the Reichsbank, and Hitler himself. If anybody in pre-Nazi Germany was acutely conscious of the relationship between credit policy and the problem of maintaining a stable currency, it was Dr. Schacht. Yet once the Nazis were in control, this same Dr. Schacht, the erstwhile "savior" of the reichsmark, the high priest of the "sound currency" advocates, the man who harassed every pre-Nazi government with constant warnings that socially desirable measures which were advocated would endanger the stability of the mark, publicly called attention to the fact that there was evidently nothing sacred about the quantitative limits to credit expansion formerly recommended by him. He could, moreover, lay down his principles of credit control without even mentioning possible repercussions through the international money market. Before the annual shareholders' meeting of the Reichsbank on March 9, 1934, Schacht announced that "quantity is hardly a problem in making credit available as long as the credit-standing of the debtor, that is, his ability to make efficient use of the borrowed funds, is carefully considered."[2] An officially authorized text quotes him as declaring to an American journalist a few months later that "expansion of credit is possible as long as there is certainty that the debtors can repay the loans. As long as this principle is observed, there is no limit whatsoever to the increase in credit. Bank policy in Germany intends to give credit to everyone who deserves it."[3] Since the chief borrower was a government, which Schacht must have felt was making efficient use of the funds placed at its disposal, a government which he publicly believed would certainly repay its loans, there was practically no financial limit to the creation of credit. Hitler's statement, coming three years later when the economy was a good deal closer to full employment, was drafted more carefully. It made clear that the sole yardstick for German credit policy was the relationship between the volume of credit and the potential volume of goods and services to be produced. In an address on January 30, 1937, Hitler declared: "To save our people is not a financial problem, but merely a problem of how to make use of our manpower and our natural resources."[4]

Put positively, the objective of credit control under the Nazis was to provide the financial instruments required to keep the economy fully employed by combining manpower and natural resources in accordance with the government's military plans. From the very beginning the Nazis realized that their grandiose hopes of military supremacy would require huge quantities of public credit. Their credit and banking measures, therefore, were definitely designed to make the money and capital market as productive of public funds as possible.[3] Despite a system of direct control over production and investment which made it extremely difficult to use any substantial volume of funds for unapproved purposes, the government took the additional precaution of giving itself legal authority over all credit institutions. This not only enabled it to supervise carefully those banking activities that were still not regulated by the direct controls over the economy, but insured full participation by every institution in the military plans of the government.[4] Germany was preparing for war, and the banking and credit system, like so many other parts of the economy, was made an aide-de-camp, a servant of the military master.

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[2] *Schacht in seinen Aeusserungen*, ed. Reichsbank (Berlin, 1937), p. 51.

[3] *Ibid.*, pp. 51-52.

[4] *Frankfurter Zeitung*, Jan. 1, 1938.

Credit Control in Germany before 1933

In the pre-Nazi era, German credit institutions were much freer in the conduct of their business than similar institutions in some of the other countries,[5] the United States, for example. Legislative control and supervision were much less developed, and the credit control techniques at the disposal of the Reichsbank were not only limited, but were different from those of other Central Banks.[6] The Reichsbank, for example, could not engage in open-market operations. Nor was there any such institution as fixed reserve requirements for commercial banks.

To affect the volume of credit in the economy, the Reichsbank could utilize both direct and indirect methods of control. By changing its interest rate it could influence the cost of discount and lombard credit.[7] It could also act directly, by reducing the amount of discount or lombard credit which it would grant individual banks or other enterpreneurs. This might be applied as a uniform quantitative technique invoked against all borrowers, or might be employed qualitatively, on a quota basis to particular individuals, either to direct funds into desirable channels or withhold them from undesirable ones. Finally, the Reichsbank could undertake to curtail the volume of credit through moral suasion.

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[5] Whatever state supervision and control existed in Germany, applied to savings banks, public banks, etc., but not to commercial banks proper. For a detailed discussion of the German commercial banking system after the stabilization of the reichsmark, see Mildred B. Northrop, *Control Policies of the Reichsbank, 1924-1933* (New York, 1938), pp. 70-121.

[6] For a detailed discussion, see Northrop, *op. cit.*, pp. 251 ff.

[7] For a discussion in English literature of lombard loans, see Northrop, *op. cit.*, pp. 35-36.

During the credit and banking crisis in the summer of 1931, these powers were not sufficient to avert the breakdown of the banking system, and the government was compelled to extend financial aid to some of the largest banks in the country. Since there was widespread agreement that the crisis was partly a result of the earlier mistakes of the banks, the government acted to prevent similar errors in the future. In September, 1931, it issued a decree creating two agencies, the Board for the Banking System (Kuratorium für das Bankgewerbe), the policy-making body, and the Reich Commissioner for the Banking System (Reichskommissar für das Bankgewerbe), the executive organ of the Board, which were directed to supervise all previously unsupervised credit institutions.[8]

Legislation under the Nazis

When the Nazis took over, they inherited an institutional structure in which the government's authority over the banking system was inadequate for their purposes. Even if the government could exercise considerable influence over the Reichsbank, still, the Reichsbank was legally an independent agency. And the powers over the other credit institutions, even those accruing from the Banking Decree of 1931, were not sufficient to allow the Nazi government to exercise full control over the money and capital markets. To rectify these conditions, the Reichsbank Statute was changed, a far-reaching law affecting all other credit institutions was enacted, and various other measures were promulgated, all of which are discussed below.

The Reichsbank. The first step taken by the Nazi government to increase its formal and actual power over the banking system was the revision of the Reichsbank Act.[9] Since the Reichsbank was the heart of the banking system, and since the government was about to make heavy financial demands upon the economy, it was important that it be able to exercise full *legal* control over the Reichsbank. This was accomplished by invoking the "leadership principle" according to which the Reich President (synonymous, after August, 1934, with Reich Chancellor) was given authority to appoint the President of the Reichsbank and the members of the Board of Directors. In order to erect a legal foundation for a huge expansion of public credit, other changes in the Reichsbank Act were essential, and this first revision touched upon them all. The power of the Reichsbank to influence the expansion and contraction of credit was enlarged and made more elastic by conferring upon it the privilege of pursuing open-market policies, a change made "in view of the needs of the prevailing new general conditions."[10] Securities thus purchased, as well as outstanding lombard loans, could henceforth be substituted for the commercial bills that had been subsidiary to gold and foreign exchange as legal cover against note circulation. Furthermore, the statutory reserve of 40 per cent in gold and foreign exchange originally required against circulating notes, and previously temporarily suspended, was now permanently abandoned. This meant that while technically a gold and foreign exchange reserve requirement was still on the statute books, there was no provision for any minimum percentage. These amendments were the beginning of a development that was carried to extremes in the next six years of Nazi rule. With foreign exchange and gold cover practically not necessary any longer, with commercial bills, outstanding lombard loans, and any securities that the Reichsbank decided to buy, all acceptable as cover, any and every increase in the circulating medium could easily be accomplished.

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[8] For a detailed discussion of the authority of these two institutions and of their activities until 1933, see Fritz Paersch, "Massnahmen des Staates hinsichtlich einer Beaufsichtigung und Reglementierung des Bankwesens," *Untersuchung des Bankwesens 1933* (Berlin, 1933), I, Pt. 2, pp. 33 ff.

The Reichsbank Act was again revised in 1937. By a proclamation of the Reich Chancellor on January 30, 1937, the Reichsbank was declared free of all international restrictions still in force from previous reparation settlements.[11] A law of February 10, 1937,[12] re-established complete sovereignty of the Reich over the Reichsbank, and made the President and the Board of Directors of the Reichsbank (Reichsbankdirektorium) immediately responsible to the Reich Chancellor. Since the government was already exercising what amounted to complete power over the Reichsbank, the practical significance of these changes was small. They exemplify, however, the quest after formal "legality" which has characterized so many Nazi activities. More than two years later, a new act, the Reichsbank Act of June 15, 1939,[13] brought to its logical conclusion the development that started with the first Nazi revision in October, 1933. Embodying no major changes in the structure and organization of the Reichsbank, it did codify and legalize the already established practice of the Reichsbank. It formally made the Central Bank of Germany a part of the government apparatus, enjoying a status similar to that of other government departments; its employees became virtually civil servants of the Reich. The Reichsbank "shall be directly responsible to the Führer and Chancellor of the Reich" (Section 1 of the new act). The Reich Chancellor was given legal authority to hire and fire the President and the Directors of the Reichsbank at will, to issue instructions, and to supervise the direction and administration of the Bank. But most important for our purposes were the provisions concerning the credit policy of the Reichsbank. The Act of 1939 formally abolished the required cover for notes in circulation, and provided for coverage by commercial bills, Treasury bills, securities purchased in the open market by the Reichsbank, and outstanding lombard loans. There were thus no legal limits whatsoever to the powers of credit creation of the Reichsbank. It could go so far as to issue currency for the purchase of commercial and treasury bills and securities, and then treat the bills and securities as cover against the notes with which they had been bought. Nor was there any limit to the amount of working credit that could be granted to the Reich, or to the amount of treasury bills that could be purchased: "The maximum amount will be determined by the Führer and Chancellor of the Reich" (said Sections 13 and 16). As for gold and foreign exchange, inasmuch as they no longer acted as legal reserves, their function was completely changed. They could still be "admitted as note cover in addition to the cover mentioned above," and the Reichsbank was to keep its holdings "at such a level as it deemed necessary in order to settle balances with foreign countries and maintain the value of the currency" (Section 21).

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[9] Law concerning Change of the Banking Act (Gesetz zur Änderung des Bankgesetzes) of Oct. 27, 1933 (*Reichsgesetzblatt*, 1933, II, 827).

[10] *Verwaltungsbericht der Reichsbank für das Jahr 1933* (Berlin, 1934), p. 8.

[11] *Federal Reserve Bulletin*, XXIII (1937), 446.

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[12] *Reichsgesetzblatt,* 1937, II, 47.

[13] Law concerning the German Reichsbank (Gesetz über die Deutsche Reichsbank) of June 15, 1939 *(ibid.,* 1939, I, 107*)*.

The Reichsbank Act of 1939 is another illustration of the lengths to which the Nazi government would go to centralize control in its own hands. It is difficult to imagine what else could have been done to extend the legal power of the government over the monetary mechanism. In the six years between 1933 and 1939 the Nazis swept away every institution erected in the past to protect the economy against the abuses of untrammeled power.

The Credit and Banking Institutions (Other than the Reichsbank). Prior to 1931, it will be recalled, the government had no authority to supervise or control the commercial banks of Germany. The banking business was dominated to a great extent by a number of large institutions, which exercised great influence in the money and capital market. Instead of the functional specialization characteristic of American banking, the business of many of the German institutions was comprehensive; commercial banking, investment banking, and brokerage business were not segregated; savings and mortgage banks often did a general banking business, carrying checking accounts and granting commercial loans. Credit institutions dealing in short-term funds, if they were not savings banks, were not subject to legal reserve requirements, and since World War I their ratio of cash to deposits has been surprisingly small. In 1934, for example, it amounted to about 2 per cent for small as well as large commercial banks.[14] Commercial bills rediscountable at the Reichsbank were the chief secondary reserve. One further phase of German banking practice which should be mentioned is the comparatively limited use of checks. Although the proportion of payments made in currency has declined in recent years, the use of checks is not at all as common or as widespread as in the United States.

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[14] See *"Das Reichsgesetz über das Kreditwesen,"* ed. by Frankfurter Zeitung (Frankfurt, 1935), p. 63.

In 1933 the government appointed a committee to investigate the German money and banking system. In its final report,[15] said to have been greatly influenced by Schacht and by the conservative element in the committee, the conduct of the banking business during the decade of the twenties was severely criticized, and the basis was laid for the new law concerning the German Credit System, passed on December 5, 1934.[16]

The new Credit Act followed a pattern which was to become characteristic of the Nazi economy. By subjecting the banks to complete domination of the government, it deprived them of the economic freedom they had previously enjoyed, but it was scrupulously careful to perpetuate the institution of private property in banks. Nationalization had been widely advocated in Germany, especially in the field of banking, but the Committee of Inquiry into German banking had frowned upon any such suggestion. The act, following that lead, provided that all banks—except savings banks and credit institutions which had been publicly owned before the advent of the Nazis—were to continue to function as privately owned institutions. The reaffirmation of the private property principle did not stop there. Within a few years, the property rights, which the government had acquired in most of the large commercial banks by extending aid to them during the 1931 crisis, were relinquished as the banks found themselves in position to repurchase the interest which the government had acquired in their capital. Another aspect of the Nazi legislative pattern that can be found in the Credit Act is a deliberate generality. Wherever possible, it was couched in general terms. Its framework is a series of general rules designed to guide the supervising agencies in administering the act and controlling the credit system. Very few provisions were specific enough to curtail seriously the discretionary powers of the governing bodies. The intent obviously was to give them sufficiently broad powers to meet any situation that might arise. To be sure, the Credit Act also contained detailed provisions touching on almost every phase of banking. We shall concentrate upon those that replaced the traditional mechanism of competition, prices, and profits.

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[15] *Ibid.*, pp. 25-36.

[16] German Credit Act (Reichsgesetz über das Kreditwesen) of Dec. 5, 1934 *(Reichsgesetzblatt*, 1934, I, 1205). For a complete translation, see *Federal Reserve Bulletin*, XXI (1935), 30 ff.

The Credit Act of 1934. 1. The Supervisory Institutions. The Credit Act of 1934 gave the government jurisdiction over *all* credit institutions, except those that were owned by the government, e.g., the Reichsbank, the Golddiskontbank (a subsidiary of the Reichsbank), and the check account system of the Reich Post Offices. Authority was to be vested in two institutions,[17] similar in organization to the supervisory agencies created through the Emergency Act of 1931, but enjoying powers that were broader and more comprehensive. They were the Supervisory Board for the Credit System (Aufsichtsamt für das Kreditwesen), charged with providing general rules and principles, and the Reich Commissioner for the Credit System (Reichskommissar für das Kreditwesen), responsible for executing the general measures of the Supervisory Board, and enjoying privileges and obligations of his own. The Board consisted of seven members, the President and the Vice-President of the Reichsbank, who were its Chairman and Vice-Chairman, respectively, the Undersecretaries of the Departments of Finance, Economics, Agriculture, and Interior, and a member appointed by the Chancellor of the Reich. The Reich Commissioner was one of the Subsidiary Agencies of the Department of Economics. Appointed by the Chancellor of the Reich with the advice of the President of the Reichsbank, the Commissioner might attend the meetings of the Board, but was not entitled to vote. This limitation was scarcely important. The act did not provide for balloting by the Board, unless a decision of the Commissioner was being appealed. In accordance with the leadership principle, all decisions were made by the Chairman of the Board. If a single member of the Board protested his decision, the Chairman could be overruled by the Reich Cabinet. By appointing the President of the Reichsbank chairman of the Supervisory Board, the most influential of the supervisory agencies, which was virtually run by him, the act concentrated great powers in the hands of the Reichsbank. There was no loosening of the Reichsbank's grip until after the outbreak of war. Then, a decree of September 15, 1939,[18] abolished the Supervisory Board and transferred its functions to the Department of Economics. The office of the Reich Commissioner became the Reich Supervisory Office for the Credit System (Reichsaufsichtsamt für das Kreditwesen) with a president appointed by the Reich Chancellor after consultation with the President of the Reichsbank. Directly responsible to the Department of Economics, the Reich Supervisory Office exercised control over all credit institutions. The abolition of the Supervisory Board that the President of the Reichsbank had controlled, and the reorganization of the Reich Commissioner's office as an integral part of the Department of Economics, must have definitely weakened the position of the Reichsbank.

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[17] The credit institutions were also included in the "Organization of Industry" (see pp. 19 ff.) and were thus subject to government control through yet another mechanism. For a detailed discussion of the entrepreneurial organizations in banking, see Otto Christian Fischer, *Reichsgruppe Banken*, Schriften zum Staatsaufbau, No. 52 (Berlin, 1940).

2. *The Significance of the Credit Act.* A careful analysis of the Credit Act reveals that its general intent was to centralize control of the banking system in the hands of the governing bureaucracy. It is studded with provisions of the most general kind, provisions designed to give legal standing to any and every step taken by government agencies. Probably the most important of them was Section 32, authorizing the Supervisory Board to "issue rules for the conduct of the business of credit institutions." Any provision that is so general is obviously loaded with potential power, and, like the similar blanket provision written into other Nazi laws, was intended to legalize the huge arbitrary authority exercised by the government. To what extent and for what specific purposes this particular provision was used, it is impossible to say, for no record of the decisions and activities of the Board is available.

Much of the act is made up of provisions which empowered a government representative to act as the regulatory agent. Interest rates, commissions, fees, and all other business terms were to be fixed by the Commissioner, with the consent of the Reichsbank. The discarding of the existing market mechanism as interest rate determiner, and the substitution of rates set by the government, undoubtedly increased the effectiveness of quantitative control over what it had been when the Reichsbank could change directly only its discount and lombard rate. But quantitative control was far from sufficient. In order to supplement other direct control measures in the economy, the government desired qualitative control over all liquid funds. Without being precise, or referring to qualitative control by name, the act makes ample provision for stringent enforcement. Every month credit institutions were required to report to the Reich Commissioner all debtors whose total liabilities to any individual credit institution exceeded one million reichsmarks (Section 9), a figure that was not very large. If any single borrower incurred debts with more than one institution, the Reich Commissioner was authorized to notify all the institutions involved. Whenever such reports are required, it is obvious that the Commissioner will not only be kept up to date on information that is important for controlling the credit policy of banking institutions, but will be consulted about the advisability of granting larger loans before they are actually made. Another aid in exercising qualitative control was the provision limiting the loans of any credit institution to any individual borrower to a percentage of its capital, a percentage fixed by the Supervisory Board (Section 12);[19] any loan exceeding that percentage was to be "reported" to the Commissioner. These provisions made it difficult or impossible—depending upon the government's intention in any particular situation—to finance new investment of any considerable magnitude out of bank credit, at a time when the capital market was virtually closed to new private investment, and bank credit was probably a last resort. Powerful instruments in their own right, they could always be buttressed by the more general provisions, such as the article permitting the Supervisory Board to "issue rules for the conduct of the business of credit institutions," and the article instructing the Supervisory Board to shape money and banking policy in accordance with the general interests of the economy (Section 32). Together they embodied grants of power broad enough to justify almost any degree of qualitative control. How much of it was invoked to reinforce the direct controls in the economy, perhaps to eliminate a source of funds used for accumulating undesirable inventories, or to prohibit new investment, it is impossible to say.

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[18] *Reichsgesetzblatt*, 1939, I, 1935.

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[19] On June 24, 1936, the Supervisory Board fixed the percentage at 10-15 per cent, depending on the size of credit institutions *(Deutscher Reichsanzeiger,* 1936, No. 149*)*.

In pursuing the government's quest for complete power, the act not only abolished every vestige of freedom of trade for credit institutions, but made it possible for the government to ferret out whatever information it might require to enforce its will. A license from the Reich Commissioner was prerequisite to opening a new credit institution or establishing a branch office at home or abroad. Any credit institution or any of its branches could be closed by the Commissioner for "the violation of general interests" (Section 6 *(c)*), a provision general enough to give the authorities unlimited authority. Credit institutions had to keep the Commissioner informed concerning various changes in their operations, such as changes in management, changes in the capital structure, a decision to close the institution (Section 8). The Commissioner could request balance sheets, profit and loss accounts, and any books or documents of the institution. He could attend shareholders' and membership meetings and could request that shareholders' and membership meetings be called so that problems of one kind or another could be brought before them. To these provisions should be added the many sections of the act (9, 13, 20, 25, 34, 35, 37) which allowed for complete insight into internal affairs and business practices of all credit institutions, and the sections (45-50) which made possible heavy penalties. They all provided a formidable barrier against concealment or nonco-operation.

The other provisions of the act are concerned largely with the future condition of the capital market, which the Nazis were preparing to exploit to the utmost as an aid in financing their gigantic military program. According to a competent authority who wrote soon after the passage of the act,[20] the provision for government fixed interest rates was largely inspired by the government's interest in future developments in the capital market. A competitive market might have established higher interest rates than the government desired. But more important in con-

[20] *Das Reichsgesetz über das Kreditwesen*, p. 70.

nection with the capital market were the parts of the act specifically designed to make funds available for government expenditure. Such were the provisions requiring credit institutions to keep, besides a cash reserve, secondary reserves in commercial bills and securities and limiting their holdings in equity, real estate, and permanent business participations. The Supervisory Board was to determine how large a percentage of the bank's liabilities (except savings accounts) was to be kept as secondary reserve. The percentage to be fixed by the Board could not exceed 30 per cent (Section 16). No doubt this provision for secondary reserves was designed primarily to induce credit institutions to buy government securities. Quite likely these formal provisions of the act were supplemented by frequent informal suggestions to the credit institutions concerning action that would be welcomed with regard to a given issue of government bonds or short-term paper. The Supervisory Agencies were certainly in a position to exercise this kind of moral suasion. It is reported, for example, that the Board, acting on the basis of its detailed knowledge of the balances carried by each depositor, instructed credit institutions to "invite customers with balances of more than 5,000 reichsmarks to subscribe to government issues."[21] A word should be said about savings banks, source of government credit about which the act was not very specific. It merely delegated to the Supervisory Board the power to issue instructions concerning reserve requirements and investments. But there is no doubt that from the very beginning[22] the government planned to have savings banks invest a large part of their funds, as they later did, in government securities.

Foreign Exchange Control. The earlier sections of this chapter have described the measures adopted by the Nazi government to obtain complete legal domination over the Central Bank, to limit the freedom of the commercial banks, and, in general, to concentrate authority over the money and banking system in its own hands. Full control would have been impossible, however, without the abandonment of the gold standard as it existed in Germany until 1931. As long as there is freedom in international economic transactions and the various items in the country's balance of payments are cleared through a gold standard system, the Central Bank is obliged to provide for an adjustment of the excess of incoming over outgoing, or outgoing over incoming payments, by buying or selling gold. This means that the Central Bank cannot completely control the credit policy of the nation. A large excess of outgoing payments may necessitate credit restriction; a heavy excess of incoming payments may lead to an undesirable expansion of credit facilities. Expansion or contraction of credit resulting from the movements of gold may affect domestic prices and production and, indirectly, the credit mechanism. Changes in the discount rate of the Central Bank may lead to international movements of money and capital which also affect the domestic credit mechanism. With the introduction of foreign exchange control in Germany in 1931, the ties between the German credit mechanism and money and capital markets abroad were severed, and the government was able to prevent those maladjustments in the balance of payments which, under the gold standard, might have affected the credit and price mechanism of the country. Foreign exchange control led to the independence of the Central Bank without which the Nazi government could not have attempted to set up a "self-sufficient" banking system. It meant that excess payments for international transactions would no longer occur unless the government actually wanted them. The power of the government over international economic affairs became so great that it could fix the total amount of outgoing payments at any level it saw fit. It could avoid, therefore, that the amount of outgoing payments exceeded the amount of incoming payments. Since export trade was not as rigidly controlled as imports, the amount of incoming payments might have exceeded the amount of outgoing payments. The government had no reason to fear such a development since it had no objection to the accumulation of foreign exchange. It had acquired sufficient control over the internal credit mechanism to neutralize the effect of any influx of gold or foreign exchange if it so desired.

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[21] A. Dauphin-Meunier, "Le Contrôle des Banques en Allemagne," *Revue d' Économie Politique,* I (1936), 418.

[22] *Das Reichsgesetz über das Kreditwesen,* p. 68.

Foreign exchange control comprises all measures affecting the collection, administration, and utilization of the supply of foreign exchange and gold which becomes currently available. It contains, in addition, all provisions regulating the trade in foreign exchange, including the fixing of the price for foreign currencies in terms of the national monetary standard. It was introduced in Germany in the summer of 1931, when the spreading credit crisis in Europe drained large quantities of gold and foreign exchange out of the country. The subsequent history of this control mechanism is not unlike the history of regulation in other parts of the economy. During the first few years every effort was made to maintain as much enterpreneurial freedom as possible. Visible trade was supervised and controlled much less strictly than were capital movements. Emphasis was placed upon quantitative control over imports in order to avoid interfering with the importer's freedom to buy what and from whom he wished so long as he stayed within the quantitative limits set by the foreign exchange authorities. This mechanical system, supplemented steadily by an increased use of individual investigations and permits, operated quite satisfactorily until about the autumn of 1934, when it was reconstituted as part of the New Plan.[23] Thereafter, every individual contemplating a transaction which involved an outflow of foreign exchange, had to apply to the proper authorities for a permit. Nazi literature emphasizes that this change was made necessary by an increased shortage of foreign exchange and by the harmful effect upon German trade of the depreciation and devaluation of currencies abroad. This may have been true, but it was scarcely the only reason for tightening the system of control. Basic changes in the rest of the economy made modification of the foreign exchange control mechanism unavoidable. The intricate system of direct controls which replaced the traditional price mechanism compelled the government to supervise international transactions much more closely. After the introduction of the New Plan in 1934, no important changes in the system of foreign exchange control had to be made either before or after the outbreak of war. The many small changes that were made were concerned with plugging loopholes and improving administration. The system of control, as it is described here, is embodied in the Foreign Exchange Control

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[23] For further details, see pp. 48-49 and 140-141.

Law of December 12, 1938,[24] which codified all previous legislative steps, and in no way changed their basic character.

Foreign exchange control was exercised by four different Reich agencies, the Department of Economics, the Reichsbank, the Foreign Exchange Offices, and the Supervisory Agencies. Ultimate authority was vested in the Department of Economics, but since problems of foreign exchange and international payments directly affect the work of the Central Bank,[25] the Department of Economics was to work in agreement with the Reichsbank. Foreign exchange control was subdivided into the collection of all incoming payments in foreign exchange, and the allocation of available foreign exchange for the satisfaction of existing, or the creation of new, obligations. All incoming payments from abroad had to be handed over to the Reichsbank, either directly or through those commercial banks which as agents of the Reichsbank had been designated as "foreign exchange banks" and authorized to deal in foreign funds. To enable the Reichsbank to check up on all payments as they fell due abroad, exporters were forced to record the nature and value of all commodities shipped out of the country (Exportvalutaerklaerung). Those who failed either to declare their exports or to deliver their foreign exchange faced severe penalties. The allocation of foreign exchange was in the hands of thirty-one Supervisory Agencies and twenty-nine Foreign Exchange Offices. After the introduction of special permits for each individual import transaction, the Supervisory Agencies were by far the more important institutions.[26] They had authority over all visible trade, deciding whether given imports and exports were desirable, whether the quantities, prices, credit terms, and countries involved were satisfactory.[27] Organized by commodities or groups of commodities instead of geographical districts, the Supervisory Agencies were able to acquire a tremendous amount of knowledge and information regarding their specific branches of the economy. As we shall see later,[28] the work of the Supervisory Agencies was not limited to regulating visible trade, but was eventually extended to controlling all processes of production in all industries. Although the Foreign Exchange Offices which were affiliated with the Regional Collectors of Internal Revenue were subsidiaries of the Department of Economics, they were headed by a Reichsbank official. They were responsible for international trade in services, for the establishment of Aski-accounts,[29] for all payments resulting from in-transit trade, and for all international money and capital movements except the standstill agreements, which were the year-to-year arrangements with foreign creditors of short-term debts and were handled by the Reichsbank itself.

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[24] *Reichsgesetzblatt*, 1938, I, 1733; see also *ibid.*, p. 1851.

[25] Carl Hermann Müller, *Grundriss der Devisenbewirtschaftung* (Berlin, 1938), p. 193.

[26] For a discussion of their history and organization, see pp. 47-49.

[27] The actual movement of goods was supervised by the custom offices on the basis of the permits issued by the Supervisory Agencies.

[28] See pp. 141-142.

With the passage of time, foreign exchange control, as elaborated by these various official agencies, became increasingly complicated with far-reaching consequences for the conduct of international economic affairs. No longer were economic transactions between Germany and the outside world dominated by the autonomous price mechanism; they were now determined by government agencies interested in the requirements of the military economy. With the extension of foreign exchange control over all transactions in the economy which might lead to a movement of funds across the border, much of the former activity of private banks became subject to close government scrutiny. Dealings in foreign exchange, foreign securities, foreign commercial bills, and foreign real estate, direct investments in foreign countries, loans to foreigners, deposits and withdrawals by foreigners, all these and a host of other customary banking transactions were now carefully controlled. At the same time, the old relationships between German and foreign businessmen were superseded by novel arrangements improvised for special purposes, arrangements like the standstill agreements, the clearing agreements, the blocked marks, the Aski-accounts, etc.

Special Measures Affecting the Capital Market

It did not take the Nazi government long to realize that its ambitious plans required the piling up of huge government deficits, much of which would have to be financed in the capital market. With this in mind the government reached into the capital market and through a series of legislative and administrative steps soon altered its function and significance. Mention has already been made of the Credit Act provisions designed to harness the capital market to the needs of the military economy. We refer particularly to the provisions making it obligatory for all credit institutions to hold a certain amount of commercial bills and securities,[30] provisions which radically changed the pre-Nazi practice of German commercial banks, savings banks, insurance companies, etc., of investing relatively small amounts of their funds in securities. From official statistics,[31] it would seem that the investment policies of savings banks and insurance companies were immediately affected, investments in government issues growing rapidly while investments in mortgages, individual loans, etc., declined. The change in the portfolios of commercial banks, particularly with regard to long-term government issues, was effected much more slowly, but the pace quickened visibly in the two years before the outbreak of war. What was behind this lag is an open question. Perhaps the difference between the yield on long-term issues and short-term issues was not great enough to compensate for the loss in liquidity, and for the increased risk of a capital loss in the longer, unforeseeable future. Perhaps the yield was not as important as other differences between short- and long-term issues. Not only was most of the short-term paper issued by the German government, including the work creation bills and special bills, rediscountable at the Reichsbank, but it was cheaper to rediscount the short-term paper than to pay the higher cost of using the nondiscountable long-term government securities as collateral for lombard credit from the Reichsbank.

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[29] Aski-accounts resulted from payments made by German importers for a special kind of imports. Balances in Aski-accounts could be used only for purchase and export of a limited number of German commodities.

The provisions of the Credit Act, however, were only a fragment of the government's activity in the capital market. Many other steps were taken to "increase the internal strength" of the capital market and to improve its ability to absorb government loans. Some of them, such as the law of June 1, 1933, reducing interest rates on agricultural debts,[32] the law of September 21,

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[30] Although this provision made no specific reference to government securities, it was used to increase the amount of government paper held by credit institutions.

[31] Reichs-Kredit-Gesellschaft, *Economic Conditions in Germany in the Middle of the Year 1939* (Berlin, 1939), pp. 52-53.

[32] *Reichsgesetzblatt*, 1933, I, 331.

1933, consolidating the short-term municipal debt,[33] and the various decrees extending the moratorium on mortgages and other debts,[34] were primarily concerned with the creditor-debtor relation. Others, such as the various conversion laws, were adopted in order to lower interest rates which might otherwise have tempted capital away from government issues, or increased the government's cost of borrowing. Many of these, as well as relevant changes in tax legislation, are described in other chapters. Here two other measures will be treated at some length. One of them was concerned primarily with the stock market and probably affected the capital market only indirectly. But it invites extensive treatment, if only because it has been so widely misunderstood in this country. The other represents a major effort by the Nazis to link the capital market directly to their military program.

Before the Nazi victory in 1933, the stock market had been a favorite target of Nazi propagandists. But once they were in control, they contented themselves with minor organizational changes, such as reducing the number of stock exchanges from twenty-one to nine. As a result of the improvement in general business conditions, and possibly the fears of investors that inflationary movements might develop, stock-market prices had been rising steadily since early in 1933. From 1933 to 1934 the average of stock prices rose approximately 15 per cent; from 1934 to 1935, approximately 17 per cent.[35] Dividends on stocks were increasing at the same time as the yield on long-term bonds was declining. Claiming that it feared a possible diversion of funds from the capital market to the stock market, the government in December, 1934, added to its public warnings against speculative tendencies and to its pressure upon the banks to discourage undesirable stock-market practices, the Law concerning the Distribution of Profits by Corporations.[36]

The law made it illegal for corporations with a capital of over 100,000 reichsmarks to distribute, in cash, dividends exceeding 6 per cent (in some cases 8 per cent) of the par value of the stock. The difference between the permissible cash dividend and the declared dividend (if it was higher than permissible) was to be paid to the Gold Discount Bank, which was instructed to invest it in government bonds to the account of the shareholders of the corporation. After three years, when the law expired (at the end of 1937), the funds accumulated in the Gold Discount Bank were to be distributed to the shareholders in either cash or securities. But in December, 1937, the law was extended for another three years,[37] and it was decided to distribute the funds of the first three years in tax certificates acceptable in payment of many federal taxes to be levied between 1941 and 1945. Finally, in June, 1941, the law was again modified.[38] This time, any new increase in dividends was prohibited unless a corporation had paid less than 6 per cent before the issuance of the decree. Dividends of all corporations in excess of 6 per cent were subject to a sharply graduated tax, heavy enough to make dividends in excess of 8 per cent virtually impossible.[39] The portion of the declared dividend which exceeded 6 per cent (in some cases 8 per cent) and hence could not be paid out in cash was no longer to be turned over to the Gold Discount Bank, but to be invested by the corporation in government securities and to be held in trust for the shareholders.[40]

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[33] *Ibid.*, 1933, I, 647.

[34] *Ibid.*, 1933, I, 1092; 1934, I, 1255; and 1935, I, 1467.

[35] *Vierteljahrshafte zur Konjunkturforschung*, IX (1934), Part B, p. 284, and XI (1936-37), Part B, p. 112.

[36] *Reichsgesetzblatt*, 1934, I, 1222.

It has often been claimed that the law, in keeping with principles frequently proclaimed by the Nazi party, genuinely sought a reduction in dividends, or that its major concern was the amassing of large quantities of funds for the purchase of government bonds. Neither claim stands up under careful scrutiny. In the first place, corporations could legally escape the provisions of the laws of 1934 and 1937 by increasing the par value of their shares. The par value of any share could be so increased that any absolute dividend payment would amount to a yield of not more than 6 or 8 per cent of the par value. If, for instance, the par value of the shares of a corporation had been 100 reichsmarks and the corporation had paid 6 per cent or 6 reichsmarks in dividends, it could, by raising the par value to 200 reichsmarks, increase next year's dividend to as much as 12 reichsmarks, and still be within the 6 per cent ceiling. A good many corporations made use of this device, which was modified in the 1941 amendment. After the 1941 amendment, a corporation could now no longer escape the maximum provision of the decree by changing the par value of its shares. But the decree expressly made it possible for corporations to escape the new, heavy tax on dividends in excess of 6 per cent by modifying their capital structure. As a matter of fact, the government did everything in its power to encourage such reorganizations of corporations.[41] Several hundred corporations "rectified" their capital structure within six months after the release of the decree,[42] which meant that they escaped the penalty tax if they paid dividends over 6 per cent.

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[37] *Ibid.*, 1937, I, 1340.

[38] *Ibid.*, 1941, I, 323 and 493.

[39] If a corporation paid a dividend of 7 per cent, it was to pay an additional ½ per cent of the par value of the share as tax; with an 8 per cent dividend a tax of 2 per cent; with a 9 per cent dividend a tax of 7.5 per cent; and with a dividend of 10 per cent a tax of 12 per cent was to be paid. This meant that if a corporation wanted to distribute a dividend of 10 per cent—of which 2 or 4 per cent were to be invested in government securities—it had actually to pay out 22 per cent.

[40] For a detailed discussion of the June, 1941, decree, see *Foreign Commerce Weekly*, Aug. 16, 1941, pp. 6 and 19, and Friedrich Sarow, "Dividendenbegrenzung und Kapitalausgleich," *Die Wirtschaftskurve*, XX (1941), 187 ff.

To understand all that was involved, it is necessary to take note of some German stock-market practices that may be unfamiliar in America. In Germany, every share of stock has a declared par value. Its market value, or the number of reichsmarks for which the stock changes hands, may be above, below, or equal to its par value. But when prices of stocks are quoted or listed in Germany, the market value is given as a percentage of the par value. Thus a share of Allgemeine Elektrizitäts Gesellschaft, having a par value of 1,000 reichsmarks, and selling for 800 reichsmarks, will be said to be selling at 80, 800 being 80 per cent of 1,000. This being so, the absolute dividend may be increased, and the increase capitalized accordingly, so that the stock actually changes hands for more reichsmarks, yet the price of the stock, that is the quoted price, remains the same, granted, of course, that the corresponding change in par value described earlier, has taken place. To illustrate, it may be assumed that in 1930 the above share of AEG had a par value of 1,000 reichsmarks, that in that year it paid a dividend of 6 per cent or 60 reichsmarks, and that it could be purchased for 800 reichsmarks. Assuming further that, in order to evade the law, the par value of AEG was changed to 2,000 reichsmarks, and that in 1935 it again paid a dividend of 6 per cent, this now means 120 reichsmarks or twice as much as in 1934. If this dividend were capitalized accordingly, and the stock could be sold for 1,600 reichsmarks, twice what was paid for it, its price would still be listed as 80, 1,600 being 80 per cent of 2,000. This means, of course, that within the structure of comparatively stable stock-market prices, there may be a hive of speculative activity, with purchasers vying with one another, not only for the increased dividends that a change in the par value of the stock made possible, but for the capital gains that accrue from the capitalization of these increased dividends. Unless these factors are borne in mind, it is impossible to evaluate the Nazi stock-market legislation.

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[41] Heinrich Strathus, "Das neue Dividendenbild," *Die deutsche Volkswirtschaft,* 1941, p. 675.

[42] *Wirtschaftsdienst,* XXVII (1942), 33.

Second, it is clear that stockholders were not permanently deprived of the increased earnings of their companies. They were merely compelled to wait a few years before cashing in on them. Third, corporations could avoid contributing to the purchase of government bonds by the simple expedient of keeping their dividends within the limits of the law. The resulting accumulation of undistributed profits would have enabled them to finance expansion of capacity out of their own funds, an effect that the government ardently desired. Since, as will be explained below, the government was determined to reserve the capital market for itself, it hoped to decrease the corporative demand for outside funds by encouraging them to retain their earnings.

There can be no doubt that the law had little direct effect upon the government bond market. The total sum paid into the Gold Discount Bank under the law amounted to 102.5 million reichsmarks for the period of the first act until the end of 1937, and to 107.7 million reichsmarks for the second period, until the middle of 1941[43]—both very insignificant amounts. Any important effects that the law may have had must have been indirect. By inducing some corporations to accumulate more funds than they otherwise would have done, it may have reduced the pressure on the capital market and reduced somewhat the purchasing power in the hands of shareholders. If, in addition, we consider the fact that not every corporation evaded the law, it becomes apparent that the law placed a damper on the price of stocks, insofar as shareholders of nonevading corporations took account of the fact that they could not cash in on their earnings for some time to come, and insofar as the dividends of such corporations were kept below what their earnings would ordinarily have warranted. Average stock prices increased about 10 per cent from 1935 to 1936 and about the same percentage from 1936 to 1937. After 1937 stock prices declined by about 10 per cent until the outbreak of war.[44]

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[43] Martin Lohmann, "Die Dividendenabgabeverordnung im Rahmen der Kriegswirtschaftspolitik," *Jahrbücher für Nationalökonomie und Statistik*, CLV (1942), 64.

Finally, by curtailing speculation in stocks with stable par values, and by hiding behind a façade of comparatively stable stock prices speculation in stocks with par values that were changed, the law probably prevented any large-scale movement into the stock market by the general public; the public might otherwise have been tempted by continually rising stock quotations to withdraw funds from the bond market for the purchase of stocks.[45] After the outbreak of war, however, indirect measures were no longer able to forestall a boom in the stock market. Powerful forces led to it: the increasing liquidity in the economy, the optimism generated by military successes, the growing difficulty of finding outlets for the ever-increasing purchasing power in the hands of the public, the favorable business conditions, etc. From the beginning of the war until the fall of 1941, average stock prices rose by about 50 per cent. It was then that the government stepped in and destroyed the last relatively free market in the economy.[46] Loans for the purchase of stocks were prohibited. Shareholders had to file a declaration with the government of all the shares purchased since the outbreak of war if their market value exceeded 100,000 reichsmarks. The government could, at any time, request that any of these shares be delivered to it for cash and that the proceeds be invested in securities to be specified by the government. In the summer of 1942 the government started to make use of that authority. It was hoped that the possibility of forced sales would discourage speculators and that the government could accumulate a pool of securities that could be thrown on the market whenever the market price of such securities tended to move upwards. Although prices were not kept stable, the rising tendency seems to have been checked somewhat. Average stock prices at the end of 1942 were about 5 per cent higher than a year before.[47]

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[44] *Statistik des In-und Auslands,* XIV (1939-40), 38.

[45] Another measure which may have slightly favored the bond market at the expense of the stock market, was the provision affecting stock-market transactions of foreigners. They could use any blocked balances for the purchase of bonds but in purchasing stocks were restricted to blocked balances that had their source in a stock transaction (see Friedrich Müller, "Reichsbank und Kapitalmarkt," *Schriftenreihe der Staatsbank,* Berlin, 1937, I, 132).

[46] *Wochenbericht des Deutschen Instituts für Wirtschaftsforschung,* XV (1942), 37.

Long before the passage of the Law concerning the Distribution of Profits the Nazi government had taken a more important step calculated to affect the capital market directly. It drastically limited the flotation of new private capital issues, a move made in anticipation of subsequent developments in the economy. It was considered possible that improved prospects for new investment and a decline of long-term interest rates might prompt private entrepreneurs to seek new funds, and that a consolidation of short-term debts, and the reduction of the interest burden of states, municipalities, and other debtors might place some of them in a position to increase their borrowing. It was essential, therefore, that as many of them as possible be denied access to the capital market, not only because the government needed all available long-term funds for its own military purposes, but because the inability of private enterprise to obtain capital for new investment would stimulate its efforts for self-financing[48] and may have eliminated some of the pressure on the industrial capacity of the country. This was accomplished, not, as is often suggested, by a decree prohibiting all capital issues, but by the appointment of a special committee to examine each prospective capital issue on its own merits.[49] This committee, established by administrative action on May 31, 1933, with the President of the Reichsbank as chairman, was granted "complete authority on its own to decide upon and supervise all matters pertaining to the money and capital market lest disturbances of the money and capital market occur because of decisions or interferences by agen-

[47] *Wirtschaft und Statistik*, XXIII (1943), 106.

[48] The government seems to have been successful in that attempt. It is reported (*Die Deutsche Volkswirtschaft*, 1941, pp. 840-841) that the amount taken for depreciation increased considerably in these years and that the percentage of total profits paid out for dividends declined. According to an estimate by the Reich Statistical Office, total dividends of all corporations which, in 1927, were almost as large as the amounts taken for depreciation by these corporations in that year, declined to little more than one third of depreciations in 1938.

[49] Müller, *op. cit.*, p. 131.

cies without authority."[50] There is little information on the actual activities of the committee. From the little there is, it seems unlikely that it enjoyed the sweeping authority suggested by the vague language of the official statement just quoted. The Committee was there to protect the capital market from demands that might disturb the financial policies of the government. Since technical responsibility for granting permission to float new securities rested with the Department of Economics, the functions of the Committee must have revolved about the making of recommendations to this Department. During the first few years of Nazi rule the number and size of private issues were exceedingly small.[51] Beginning with 1936, there was a sharp increase, the Committee having ruled that financial requirements of various industries under the Four Year Plan could be satisfied in the capital market. In the six years from 1933 through 1938, 17.4 billions reichsmarks of new loans were floated in the capital market, 2.5 billion reichmarks or 13.5 per cent of which were private issues. Out of this total of 2.3 billion, 1.5 billion or 62.5 per cent were offered in 1937 and 1938.[52] Applications were approved for a few selected purposes, several issues for individual states, some mortgage bonds, and some industrial loans, necessary for financing certain projects under the Four Year Plan. Since the projects under the Four Year Plan were undertaken at the behest of the government, for military purposes, the use of the capital market to finance them is actually an example of the reservation of the capital market for government use.[53] Various indications exist that after the outbreak of war, the government permitted even more private issues to be floated in the capital market. With the progress of the war, there was a growing need on the part of private firms to resort to the capital market to finance their new investment, at the same time as their ability for self-financing declined because of higher corporation taxes, sharper price control, regulation of profits, etc.[54] The total amount of private issues floated in the capital market was estimated officially at 6.2 billion reichsmarks for the period 1933 to the beginning of 1942.[55] If this be compared with the previously mentioned estimate for 1933 to 1938, it would seem that almost 4 billion reichsmarks in private issues were offered to the public in the three years 1939, 1940, and 1941.[56]

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[50] *Wochenbericht des Instituts für Konjunkturforschung,* XI (1938), 95.

[51] The Institute for Business Cycle Research published interesting information in this respect. It compared the period 1926-1929 with the period 1932-1936. The relationship between new public and private issues during the first period was 0.55: 1; in the latter period, 5.5:1 *(Wochenbericht des Instituts für Konjunkturforschung,* X, 1937, 20*)*.

[52] Reichs-Kredit-Gesellschaft, *Economic Conditions in Germany in the Middle of the Year 1939* (Berlin, 1939), p. 52.

[53] To round out the picture, mention might be made of a measure that played an auxiliary role in reserving the capital market for government use. A provision of the law of September 21, 1933 (see p. 129, n. 33) forbidding municipalities to incur any short-term debts for two years after the passage of the law appears to have been designed for their own protection. But this restriction was eventually extended to become part of the general plan to reserve the capital market. Thus a decree of May 5, 1936 *(Reichsgesetzblatt,* 1936, I, 435*)* kept savings banks and giro banks from making loans to municipalities, and provided that current budgets of municipalities thereafter include reserves for debt amortization, lest they find themselves without funds when loans mature, and be compelled to resort to the capital market.

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[54] *Die Deutsche Volkswirtschaft,* 1942, pp. 9-10.

[55] Emil Puhl, "Grundfragen der deutschen Währungspolitik," *Der Deutsche Volkswirt,* XV (1942), 1510.

[56] For further details on financing of new investments, see pp. 154 ff.

Chapter 6

Control of Production

THE NEED FOR DIRECT CONTROL, 137. SOURCES OF INFORMATION, 138. CONTROL OF THE PRODUCTIVE PROCESS, 140—Agencies of Control, 140; Methods of Control, 143. CONTROL OF PRODUCTIVE CAPACITY, 154—The Administration of Control over Productive Capacity, 155; The Purpose of Capacity Control, 157; Control of Capacity until 1936, 158; Control of Capacity since 1936, 161; Measures to Insure Investment, 162.

THE NEED FOR DIRECT CONTROL

"PRODUCTION" is the phase of the economic process in which natural resources and manpower are combined to make available the goods and services at a nation's disposal. In the traditional capitalist economy the quantity and character of goods produced are governed by the market and price mechanism. Labor is applied to resources whenever, wherever, and however it is considered profitable to do so, profit possibilities being determined by the differentials between various prices. In preparing a modern economy for total war it would not be impossible—at least theoretically—to depend entirely on this mechanism to achieve the distribution of men and resources necessary to maximize a nation's destructive potential. But any such approach to the problem would mean years of costly dislocation, not only precious time wasted, but the unnecessary waste of men and material that inevitably accompanies any major shift in production not co-ordinated and synchronized by a central authority. The Nazis could afford neither the time nor the material. They were determined to achieve military supremacy as quickly as possible, and were well aware of the fact that their raw material situation, aggravated as it was by their shortage of foreign exchange and gold, made necessary a centrally controlled system of allocations. It is not surprising, therefore, to find that the traditional market mechanism for governing production gave way to production control by decree.

By the time war was declared, the Nazi government had erected a complete system of controls over the productive mechanism. Two types of control, direct and indirect, can be distinguished. The latter includes manipulation of the price-control mechanism to make the production or consumption of particular commodities more or less attractive; the formulation of wage and tax policies to curtail consumer demand; the inclusion in income and corporation tax measures of large depreciation allowances for types of investment which the government was anxious to encourage; the withholding and granting of commercial credit on the basis of the use to which the credit was to be put. The Nazis had sufficient control over the economic system to be able to use all these and a host of other indirect techniques for encouraging productive activity along certain desired lines. But the indirect measures by themselves would have been inadequate, and in actual fact were depended upon largely as supplements to an intricately detailed system of direct production-control.

Production is controlled directly through control over manpower, raw materials, and productive capacity. Manpower regulations, so important to the Nazis because of labor shortages, will be treated separately in another chapter. Here we shall concentrate upon (a) the system of measures for regulating the use of raw materials, measures which controlled their use either by direct allocation or by a series of rules specifying the raw materials which could be utilized in the various stages of the productive process; (b) the system of measures affecting production at the various intermediate stages of the productive process; and (c) the system of measures for regulating productive capacity, measures limiting total usable capacity in a given industry, and measures to insure the erection of new capacity for the production of essential commodities. The structure of regulation was built up out of literally thousands of specialized decrees in which the government issued permissions, prohibitions, instructions, and orders, differing in detail, but sufficiently alike to permit a comparatively orderly treatment here.

SOURCES OF INFORMATION

Production control, to be effective, must be based on adequate information. The statistical data provided by the official agencies and the enterpreneurial organizations of pre-Nazi Germany were, for Nazi purposes, sorely deficient. Beginning with 1933, numerous special statistical surveys were made by the government. It ordered in 1937 a statistical investigation[1] comparable to the Census of Manufacturers in the United States. In that inquiry, the government investigated the basic conditions of the industrial machine, its productive capacity, consumption of raw materials, consumption of electric power, its production and its inventories. In addition, the government must have utilized the voluminous statistical material currently collected by cartels and enterpreneurial organizations. But the details of neither the government material nor that of the cartels and enterpreneurial agencies were ever made public, undoubtedly because it was considered to have military significance. An indication of the government's attitude is revealed by the fact that work on production figures, formerly done by the Reich Statistical Office, the central statistical agency of Germany, was transferred to the new Reich Office for Military Economic Planning (Reichsamt für wehrwirtschaftliche Planung).

Much of the detailed statistical information, however, was collected by the Reich Supervisory Agencies[2] responsible for the direct control of production. All enterprises in any way engaged in the production, processing, conversion, or distribution of raw materials were required to submit regular monthly reports giving specific information on inventories, production and consumption of raw materials, and other information of interest to the control agencies. The greater the scarcity of a specific raw material, the greater the need for control, the more extensive became the statistical service. The number of firms obliged to file reports grew larger and larger and often included industries producing manufactured goods. To the Supervisory Agencies, these reports meant precise information about all commodities produced, processed, converted, stocked, and traded. With power to demand from any enterpreneur at any time detailed records of his productive capacity, his production, his prices—in fact, of anything of interest—and with power to check up on reports by examining plant, office, books, and correspondence files, the Supervisory Agencies were in a position to acquire the knowledge required for efficient control.[3]

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[1] *Die deutsche Industrie*, "Schriftenreihe für wehrwirtschaftliche Planung," No. 1 (Berlin, 1939).

[2] As mentioned on p. 47, these Agencies, originally called Supervisory Agencies, were known as Reich Agencies after 1939. To avoid confusion, we shall use the name of Supervisory Agencies no matter what period is under consideration.

Since each enterpreneur found it necessary to comply with an increasing number of requests for more and more information by increasing numbers of interested agencies,[4] compliance became an increasingly heavy burden. Eventually, the government found it necessary to make any new statistical investigation by individual agencies on economic problems dependent upon a special permit (February, 1939).[5] A new "Central Committee" was appointed which was to examine applications for new statistical inquiries and to study possibilities of simplification and verification of existing investigations. It was reported[6] that during the first year of the Committee's existence 1,200 applications for new statistics were received, 135 were rejected, 237 were modified, and only 194 were given permission in the original form. These figures illustrate the magnitude of the statistical work requested by various government agencies.

CONTROL OF THE PRODUCTIVE PROCESS

Agencies of Control. Part of the system of production control in Germany was pre-Nazi in origin, the inevitable consequence of the system of foreign exchange control introduced in 1931. Limited supplies of foreign exchange made it necessary to limit imports. This was originally accomplished quite mechanically, by restricting imports as a whole (without distinguishing between commodities which were more essential and others which were less essential) to a fixed percentage of the import volume of each importer in some past month chosen as a base. As the supply of foreign exchange decreased, the volume of imports could be adjusted by lowering the percentage allowance. But such an over-all import quota was too general to meet all the specific problems which soon arose. The need to insure at least a certain minimum importation of commodities deemed essential for one reason or another, and the structural and technological changes which are a continuous characteristic of modern economies made it necessary to supplement the over-all import quota with special import permits. They were issued after the production plans of numerous applicants were investigated. An industrialist may have wanted to import copper for the production of a commodity which he had not produced in the base month. The authorities had to determine whether copper was already being imported for the purpose by a manufacturer who had produced the commodity in question in the base month, and if so, whether an increase in imports for that purpose was advisable at the expense of some other commodity, or whether the old quota was to stand. In the latter case, the authorities had to decide which of the two producers, the old or the new, could better and more efficiently utilize the quota of copper that could be imported. In making these decisions the authorities were obviously exercising increasing control over the production of commodities which could not be manufactured without imports. To this extent they were determining what could be produced, how much, and by whom.

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[3] Johannes Barthel, *Tätigkeit und Wirkung der Überwachungsstellen* (Berlin, 1939), p. 31.

[4] H. Antoine, "Gegen die Bürokratisierung der Wirtschaftsstatistik," *Der Deutsche Volkswirt,* XII (1938), 2049.

[5] *Reichsgesetzblatt,* 1939, I, 389.

[6] *Economist,* LXXXVIII (1940), 934. The *Economist* remarks "that the economic controls introduced by the Nazi System had produced what may be called a statistical craze. For years all the economic organizations had been engaged in compiling statistics, frequently compelling managers to employ additional staffs."

When it became apparent that the regulation of imports involved regulating increasingly large parts of the economy, the Supervisory Agencies were created. An earlier chapter[7] mentioned the legislative steps in their development and the various functions originally assigned to them. Attention was called to the fact that it was not long before the Supervisory Agencies assumed responsibility for the control of the bulk of German production, not only regulating the purchase of raw materials from abroad, but also the use of all raw materials at home, from processing and converting, to buying, selling, and storing. At every stage of the productive process, Supervisory Agencies imposed upon enterpreneurs obligations which either accelerated, delayed, or stopped the flow of commodities. Every measure had some specific purpose, either increasing production, improving efficiency, abolishing overcapacity, improving quality, increasing profitability, accumulating inventories, eliminating shortages in specific industries, making adjustments among various regional markets, or promoting export trade. Behind all these measures, however, was a single general objective, control over the size and composition of the national product, so essential if the economic machine was to become an efficient instrument of military policy.

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[7] See pp. 47-49.

Although the Supervisory Agencies were subordinate to a single body (most of them to the Department of Economics, a few to the Department of Agriculture and the Reich Forestry Board), there was no single set of uniform administrative rules to which all were bound. Each agency was expected to develop techniques and practices adapted to the specific problems of the industries under its control. In the absence of any previous experience, they were forced to experiment and improvise, learning as they went. If one examines the activities of the various agencies, one finds that their decrees were usually followed by numerous amendments. With so many agencies issuing individual decrees followed by amendment after amendment there was bound to be confusion, which was intensified by jurisdictional disputes between the various agencies. Some overlapping was unavoidable, especially in the frequent cases where more than one raw material was needed for the production of a given commodity and permission had to be obtained from a number of different agencies. In the beginning enterpreneurs were undoubtedly bewildered and upset by the abundance of conflicting rules and regulations. But as the Agencies accumulated experience, they were able to organize and systematize their activity, and improve administrative conditions considerably.

In the disposition of raw materials and manufactured goods, the authority of the Supervisory Agencies was practically unlimited. No contract between enterpreneurs was sacred if the Agencies chose to interfere. It was futile to think of opening a new enterprise or expanding an existing one without assurances from the proper Agencies that the required raw materials would be forthcoming. Violators of their orders faced severe penalties, including the threat of ouster from their line of business. Certainly mere cancellation or even curtailment of their allotment of raw materials could accomplish that result. In the discussion that follows it is well to bear in mind that the hundreds of specialized decrees and instructions issued by the Supervisory Agencies provided only the framework of rules within which individual permits and instructions were issued, often only after negotiations between the Supervisory Agencies and enterpreneurs. This means that the decrees are, at best, only a clue to the actual activities of the Agencies. An official analysis of the work of a Supervisory Agency, the Agency for Chemistry,[8] points out that the many individual decisions made after negotiations with certain enterprises were often much more significant than the general decrees of the Agency. What was true of this Agency was equally true of all the others.

Methods of Control. A finished good, in the modern economy, is usually a product of many industries. It originates in the mines, or in the production or importation of raw materials, and is processed and converted numerous times before serving its ultimate purpose. This means that control over production can be exercised at various stages in the economic process. One can control either the production of raw materials, the purchase of raw materials by the first or succeeding processor or convertor, the processing or converting at the first or succeeding stages, or the production, purchase, and sale of the product in which the raw material is used. In practice it is usually necessary to step in at several points of the productive process simultaneously, imposing a wide variety of obligations upon enterpreneurs in all parts of the economy—producers, processors, convertors, and dealers. It rarely suffices to attack only the first stage, the production or importation of raw materials. In the absence of some compelling reason for controlling a particular stage, the decision as to what points to affect if production is to be most efficiently controlled is a matter of administrative expediency, dependent upon such factors as the number of enterprises to be controlled at different points of the manufacturing process.

An analysis of the decrees issued by the Supervisory Agencies since 1934 makes clear the enormity of the task. As long as there is only need to curtail or abandon production in a few industries, the task is relatively simple and can be accomplished either by withholding raw materials, curtailing the use of existing capacity or prohibiting production completely. But when the problem becomes more general, when the necessity for production control grows out of an acute shortage of most raw materials, when the scarce supply must be husbanded and carefully allocated within the framework of a gigantic military economic plan, when abundant or synthetic substitutes must be used to replace dwindling stocks of urgently needed materials, then highly refined and far-reaching techniques of control become necessary. To make them effective in a complex economy requires an organization in possession of detailed information concerning each industry and able to wield power that not only affects the large units, but that reaches down to the smallest unit of economic organization.

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[8] Posse-Landfried-Syrup-Backe-Alpers, *Die Reichsverteidigungsgesetzgebung,* II, Pt. IV, p. 11.

The Supervisory Agencies and the regulatory bodies in agriculture had both the power and the information. They organized control mechanisms in every important industry, and functioned as the industry's high command. Their detailed rulings can be classified under three main headings: (a) Production Orders, (b) Marketing Orders, (c) Inventory Orders. Each type of order could be either qualitative or quantitative. The former included rulings forbidding or demanding the production of a given raw material or a specific commodity, forbidding or demanding the use of a particular raw material for certain commodities, forbidding or demanding the purchase, sale, or storage of certain commodities. These qualitative rulings were called "instructions" *(Auflagen)*. Quantitative orders, on the other hand, specified that so much, and so much only, of a given raw material or commodity could be produced, processed, converted, used, consumed, bought, sold, or stored. They were known as "quotas" *(Kontingente)*.

Since the problems of production control made necessary increasingly detailed supervision over the economy, there was, with the passage of time, much less dependence upon the relatively crude instructions and an increasing emphasis upon quotas. Quotas were usually fixed after protracted negotiations with the interested enterpreneurs, and gave rise to a host of difficult problems. In general they were based on one of the following criteria: (a) the productive capacity of an enterprise, (b) the average or maximum turnover (quantity produced, processed, bought, sold, delivered, or stored) during a given period of time, (c) a combination of productive capacity and turnover. If none of these was suitable, an attempt was made to improvise criteria to satisfy the needs of the special situation. No matter what quota basis was chosen, it usually proved very difficult to obtain reliable and relevant data. The authorities found that they not only had to lean heavily on data provided by enterpreneurial organizations, but had to insist upon uniform cost-accounting and bookkeeping techniques, to demand regular statistical reports, and to provide special accountants and experts to check all the information received. Even then, the data was often insufficient or unsatisfactory, and it became necessary to base quotas on rough estimates or to seek some compromise acceptable to both the government and the enterpreneurs.[9]

There is no point in devoting too much space to the many intricate problems that arose in connection with the determination of quotas. Nor is there much to be gained from a detailed examination of how the Supervisory Agencies and the Agricultural Bodies handled them. It is sufficient to indicate that the Nazis found themselves face to face with a great many difficulties not unlike those which confront the statistician in the preparation of index numbers. Concepts like "capacity" and "turnover" had to be defined unequivocally, and decisions, by no means simple, had to be made with regard to a suitable base period.[10] None of these problems was simplified by the conflict between stability and flexibility. On the one hand, it was essential to keep quotas unchanged for as long a time as possible. An official expert puts the matter this way: "The possibility of changing quotas should be kept within narrow limits since the significance of the quota system as an institution serving both the mechanism of economic planning and economic stability does not permit of far-reaching and repeated changes of quotas.[11] But there were forces at work in the economy which compelled frequent change and adjustment. Conditions of supply were very unstable. The composition of production had to be changed as the military preparations progressed. It was essential to consider the effect of the size of the quotas upon the economic conditions of individual enterprises.[12] To meet the conflicting requirements of stability and flexibility, the Supervisory Agencies and the Agricultural Bodies were forced to create a special type of quota consisting of two parts, one that remained constant, another that could be varied at short intervals.

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[9] "The supreme principle of a quota system must be not to impede progress, but actually to serve it. Whoever sells goods of good quality at low prices, whoever is a social-minded entrepreneur and displays creative initiative in management or in increasing export trade, should be furthered, for instance, through the granting of additional quotas" (Gerhard and Merkel, *Recht der landwirtschaftlichen Marktordnung*, III, 25).

[10] An example of provisions for a quota based upon turnover within a given period of time may illustrate the problem. The Statutes of the Association of Wheat and Rye Millers of Aug. 10, 1936 (*Verkündungsblatt des Reichsnährstandes*, 1936, p. 415) read as follows (Section 12): "The basic quota of any member enterprise is determined by the quantity of wheat or rye milled for technical purposes or for human consumption from 1927 to 1932. From the totals thus established, milled products sold abroad (calculated in terms of wheat or rye) must be deducted. As a rule, the average for 1927 to 1932 should be the basis. In mills whose turnover increased in the five years, the quantity milled in the last year will, to some extent, be the basis for the quota. The average will be reduced by certain percentages for mills with a declining turnover. . . ."

I. PRODUCTION ORDERS. Production orders were of two kinds: (1) those called "orders to produce," which specified that certain commodities (raw materials or manufactured goods) must or must not be produced, and (2) those called "orders to process or use," which specified the type and quantity of raw material which could or could not be used in the production of a given commodity. In examining particular examples of the two types of orders, one runs across cases in which the above distinction between "orders to produce" and "orders to process or use" is blurred, the different names being assigned to identical processes. This is not surprising when one considers that the entire productive process involves "producing" one item by "processing" another. A flour mill, for instance, "produces" flour by "processing" wheat. Its activity can be limited just as well by an "order to process" wheat as by an "order to produce" flour. Insofar as an "order not to produce" a given commodity is automatically an "order not to use" the quantity and type of raw material required by that commodity, and an "order to use" or not to use a given raw material may be an "order to produce" or refrain from producing a certain commodity, the two types of orders have the same economic significance. But "orders to process or use" often enabled the government to conserve particular raw materials without curtailing the production of the final product for which the raw material was formerly utilized. In our treatment we shall stick to the names used by the official Supervisory Agencies and Agricultural Bodies.

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[11] F. W. Hardach, "Die Festsetzung von Kontingenten in der Marktordnung," *Zeitschrift für Betriebswirtschaft*, XV (1938), 47.

[12] One of the instructions issued by the government for the examination of enterprises with the purpose of fixing quotas reads as follows (see *ibid.*, p. 38): "The economic situation of the enterprise must always be taken into account insofar as it is directly affected by the size of the quota. On the other hand, if an enterprise is doing poorly because of bad management, or insufficient equipment, or high indebtedness, it cannot expect to have its quota fixed solely in order to restore its profitability."

(1) Orders to Produce. Subdivided into production prescriptions, restrictions, and prohibitions *(Herstellungsvorscriften, Herstellungsbeschränkungen, und Herstellungsverbote)*, these orders were used less frequently than others, and largely in the field of agriculture.[13] Of the three types mentioned, the prescriptions, sometimes called "production quotas," predominated. They were used, for example, to control the production of flour, margarine, and sugar. These industries were compelled to cartelize in order to simplify the regulative tasks of the central and regional agencies. They were also used in connection with manufactured goods as, for example, in a decree issued on August 17, 1938, by the Supervisory Agency for Paper[14] specifying the form, the size, the weight, and the material to be used in manufacturing stationery and many other paper products. Less use was made of restrictions and prohibitions, especially in agriculture, which was primarily concerned with increasing rather than decreasing the production of raw materials. Where restrictive quotas were employed, it was either to avoid a temporary overproduction of specific agricultural commodities or to affect a shift from the production of a less to a more essential commodity. Thus, the Reich Food Estate, by virtue of a decree of December 22, 1934,[15] forbade [16] the extension of the area under cultivation for vine unless the soil in question was unsuitable for any other agricultural production.

(2) Orders to Process or Use. Extremely flexible instruments of control, these orders were widely employed to release

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[13] To encourage or increase the production of raw materials like wool, cellulose fiber, rayon, oil, and pig iron, the government depended largely upon indirect methods, like investment and price policy, payment of subsidies, and compulsory use of synthetic materials in the production of specific commodities. All of these are discussed elsewhere in the text.

[14] *Deutscher Reichsanzeiger,* 1938, No. 191. [15] *Ibid.,* 1934, No. 299.

[16] *Verkündungsblatt des Reichsnährstandes* (Berlin, 1935), p. 49.

raw materials and semimanufactured goods for their most essential uses, to compel the substitution of materials which were plentiful for those which were scarce, and, in general, to facilitate the production of indispensable commodities at the expense of those which fulfilled lesser needs from the point of view of the military economy. In the years that have elapsed since the Nazis seized power there has been such a flood of these orders, such a variety and diversity of provisions and amendments, such constant change, such intricate and ingeniously devised devices for co-ordinating national production that it would be next to impossible to attempt an exhaustive treatment. Instead, we shall content ourselves with a brief description of the basic types of "orders to process or use."

Two main types, each of which could be either an instruction or a quota, can be distinguished: (a) those which specified the type or quantity of material that could be used for a given purpose, or in a given processing or converting operation, and (b) those which specified that a given commodity could be used only as an admixture.

(a) The various names assigned to the first type suggests that the Nazis made a good many more distinctions among these orders. But here, too, the differences are often only nominal. In general, orders directing producers to use or refrain from using a given commodity for a particular purpose were called "use" or "consumption" orders. The following may serve as examples: A decree released in 1934[17] by the Supervisory Agency for Nonprecious Metals made clear that copper and its alloys were not to be used for lightning-rods or noninsulated cables exceeding a certain gauge, and were to be used only as light coatings for roofings, draining pipes, fences, staircase railings, stove framings, internal piping for water and heating systems, weights, mirror and picture framings, plumbing installations, decorative accessories in automobiles, bars, hot water bottles, signs, medals, etc. A decree issued in 1939 concerning the use of fuel by motor buses[18] specified that regularly operating motor buses with a carrying capacity of sixteen or more passengers (including standing room) were henceforth permitted to use only gaseous fuel, particularly liquefied gas. A decree of July 22, 1937,[19] made illegal the buying, selling, or using of bread grains for fodder. Hereafter it was to be used only for human consumption. An order to use domestically produced wine in the manufacturing of vermouth to the extent of 50 per cent of the volume produced[20] illustrates the positive directives of this kind. Where the orders were quantative and concerned largely with the details of a particular industrial process they were called processing (or converting) permits, prescriptions, restrictions, and prohibitions *(Be-oder Verarbeitungs Genehmigungen, Vorschriften, Beschränkungen, und Verbote)* Two examples of the large number of prescriptions issued are quite sufficient to call attention to their nature. The order of the Reich Agency for Iron and Steel, for example, issued on March 26, 1935,[21] specified that all steel mills which had heretofore not used pig iron in the Siemens-Martin process for producing steel were hereafter to use it to the extent of at least 6.5 per cent of the Siemens-Martin steel which they produced. Similarly, a decree by the Supervisory Agency for Chemistry[22] on March 22, 1939, prescribed that not more than 1 per cent of fat be left in bones before they were processed for fertilizer.

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[17] *Deutscher Reichsanzeiger*, 1934, No. 190.

[18] *Ibid.*, 1939, No. 92.

(b) As for the remaining type of "order to process or use," mentioned earlier, the kind concerned with compulsory admixture, it served a wide variety of functions. By specifying that scarce raw materials (domestic or imported) could be used only in admixtures with more plentiful but inferior products, or with synthetic substitutes, the official agencies were able to conserve scarce items with an eye to more economical utilization. In addition, this device was utilized to increase the demand for surplus commodities, and to create an outlet for commodities, the production of which the government wanted to stimulate. Such orders have a pre-Nazi history as regards agricultural commodities. Ante-Nazi regulations designed to reduce the importation of foreign wheat called for the use of a variable percentage of domestic wheat in production of flour. A decree of December 23, 1932,[23] designed "to stimulate the consumption of animal fats and feeds of domestic origin," made compulsory the admixing of certain quantities of butter, lard, and tallow in the manufacture of margarine. The Nazis, aware of its possibilities as an instrument of control, used it in manufacturing as well as in agriculture. The decree of July 1, 1937,[24] for example, specified that a certain quantity of maize flour was to be mixed with wheat or rye flour before any of them could be used for baking or technical purposes. In the field of manufactures there was a wide choice of examples. There were numerous regulations to compel producers to mix cotton yarn with a fixed percentage of cellulose fiber. Another example was a decree of 1938 by the Supervisory Agency for Silk,[25] which specified that the yarn used in the production of interlining for men's suits, caps, and ties, had to contain a minimum of 15 to 30 per cent of cellulose fiber.

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[19] *Reichsgesetzblatt*, 1937, I, 829.

[20] Mehrens, *op. cit.*, p. 171.

[21] *Deutscher Reichsanzeiger*, 1935, No. 72.

[22] *Ibid.*, 1939, No. 69.

[23] *Reichsgesetzblatt*, 1932, I, 575.

II. MARKETING ORDERS. It was often possible to control production without recourse to the particular devices described in the preceding section. In their stead, use was made of a system through which purchasers and sellers of raw materials and manufactured goods could be controlled effectively enough to influence substantially the size of the national product and at the same time to insure adequate distribution and economic utilization of materials. The specific devices through which this was accomplished were purchase, sale, and delivery orders, which were either permits or directives to buy, sell, or deliver a given commodity, usually in some specified amount. General permits fixing sales and delivery quotas were usually issued by regional agencies after the government had announced the amount of national product expected. Purchase quotas, however, were assigned in individual permits issued to purchasers who could justify the transaction in terms of the need for a regulated commodity.

(1) Purchase Orders. Purchase permits *(Einkaufsgenehmigung* or *Bezugsgenehmigung)* were the most important and most frequently utilized of the marketing orders. Usually issued as quotas or individual quantitative permits, rather than as instructions, they were often much more suitable for controlling pro-

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[24] *Verkündungsblatt des Reichsnährstandes* (Berlin, 1937), p. 236.

[25] *Deutscher Reichsanzeiger*, 1938, No. 87.

duction than the sales permits to be discussed below. Reich officials realized that where individual permits were necessary, sellers, unable to examine the relative importance to the war effort of competing purchasers, would simply file application for sales permits to their usual customers. Purchasers, on the other hand, by filing individual applications with Supervisory Agencies, would enable the latter to examine thoroughly the use to be made of the materials purchased and to rule accordingly. Of the hundreds of purchase orders (instructions or quotas) issued, one will serve to illustrate their nature. Purchase quotas for leather from July 1 to December 31, 1939, were specified by the Reich Agency for Leather in a decree of June 21, 1939.[26] They amounted to (a) 75 per cent of the normal half-yearly requirements for skins belonging to one group (goat and lamb), (b) 70 per cent of the normal half-yearly requirements for skins belonging to another group (ox, deer, and horse); and (c) 60 per cent of the normal half-yearly requirements for skins belonging to a third group (calf).

In agriculture, orders to purchase at fixed prices were used extensively to guarantee an outlet for the products of any farmer who had been ordered to produce or deliver certain quantities of given commodities. A decree of July 10, 1935,[27] for instance, made it possible for the Reich Agency for Grain to compel flour mills to accept all the domestic rye and wheat offered to them.

(2) Sales and Delivery Orders. Although not resorted to as often as the orders to purchase, sales and delivery orders played a distinctive role in the control of production, especially the control of agricultural production. As directives compelling sellers to offer commodities for sale to certain purchasers, or to deliver them to a given place, these devices served a wide variety of purposes. They were used to insure the production of certain agricultural staples. When goods were available, they made it possible to insure an adequate supply for particular groups or specific areas. They served to prevent the hoarding of merchandise by producers, processors, and convertors, who, in the face of prevailing and anticipated shortages, might prefer inventories to sales.

[26] *Ibid.*, 1939, No. 140.

[27] *Reichsgesetzblatt*, 1935, I, 1006, and 1936, I, 544.

Delivery quotas *(Ablieferungs-und-Anbietunspflichten)* were very familiar to the grower of important farm products like wheat, rye, oats, and barley. To him they were in effect orders to produce. Otherwise he could not hope to fulfill his delivery obligations. But they were something more. They were guarantees that he would be able to dispose of his product at a fixed price, for co-ordinated purchase orders were sure to be issued to those to whom the farmer was compelled to make delivery. Outside of agriculture, delivery orders were used infrequently. The Reich Agency for Metals is known to have issued very detailed provisions for the delivery of metal scrap material to specific enterprises as quickly as possible,[28] and there are other nonagricultural examples.

Employed much more frequently were the orders regulating sales, the sales permit *(Veräusserungsgenehmigung)*, the sales restriction *(Abgabebeschränkung)*, and the sales prohibition *(Verräusserungsverbot)*. Sales permits, which were sometimes compulsions to sell and which often served simultaneously as purchase permits or use permits, were issued only after the applicant had submitted a complete list of all his customers. An example of a decree in connection with which sales permits were issued is one released by the Supervisory Agency for Coffee on March 18, 1939.[29] Section 11, which indicates what was involved, reads as follows: "In order to secure a stable distribution of available quantities of raw coffee, the roasters and wholesalers must find out the exact quantity delivered by them to retailers in 1938. The basic quota for each retailer is equal to the three-month average for 1938 (one fourth of the annual average). After deducting 3 per cent for special emergency cases, roasters and wholesalers will have to sell to each of their retail customers a quantity calculated on the basis of that average." An example of a sales restriction which shows clearly the matters of detail which the Supervisory Agencies had to regulate is the decree of July 26, 1938, issued by the Supervisory Agency for Wool.[30] It held that enterprises entitled to trade in cleaning rags were to sell cleaned and disinfected rags to consumers only (a) if the quantity sold consisted of a certain percentage of reclaimed rags, and (b) if the purchaser delivered the same quantity of used and greasy rags in exchange.

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[28] *Deutscher Reichsanzeiger*, 1939, No. 255.

[29] *Ibid.*, 1939, No. 67.

[30] *Ibid.*, 1938, No. 176.

III. Inventory Orders. No country mobilizing for war can afford to neglect the problem of stockpiles of raw materials and essential commodities. We can be sure therefore that the Supervisory Agencies and Agricultural Bodies, whose orders accompanied commodities "from birth to death," kept a strict eye on inventory practices. They undoubtedly operated in accordance with some carefully formulated comprehensive policy, but any such policy would likely be weighted with sufficient military significance to make its details a closely guarded secret. The bits of information that we have been able to piece together suggest that, besides their chief interest in accumulating large stockpiles, a twofold problem confronted the Nazis. In certain areas of activity, such as agriculture, it was imperative to accumulate stocks of commodities only temporarily, to be able to balance supply and demand in the event of a seasonal disparity. In others, the government had to be on guard against the piling up of inventories by private entrepreneurs for speculative and other purposes which might interfere with its program. As might be expected, the orders limiting inventories are restricted to nonagricultural industry, where they predominate over orders compelling entrepreneurs to store certain quantities of goods.

Mention has already been made of the use of delivery obligations to prevent the accumulation of stocks and insure their delivery to the right place at the right time. In addition, the Supervisory Agencies issued even more specific orders about inventories. On September 26, 1939,[31] for example, the Supervisory Agency for Iron Manufacturing Industries ruled that enterprises in these industries were to limit new orders for iron in accordance with a specification that iron inventories plus orders for future delivery were not to exceed the quantity of iron actually processed in a given period in the past. An example of an order to store is one of September 2, 1939, issued by the Supervisory Agency for Paper,[32] prohibiting any essential change in the composition of the inventories of members of the Trade Group

[31] See Posse-Landfried-Syrup-Backe-Alpers, *op. cit.*, p. 13.

[32] *Ibid.*, p. 56.

Paper, and limiting, until a given date, the utilization of inventories of paper and cardboard of any kind to 10 per cent of present stocks. The most important use of orders to store, however, was in connection with agricultural commodities. Each sugar plant, for instance, had to carry a certain stockpile of "reserve sugar," the size of which was fixed by the Central Association for Sugar in percentages of the basic production quotas of the different sugar enterprises. This reserve was at the disposal of the Central Association for use as exports, fodder, or any purpose it deemed advisable.

CONTROL OF PRODUCTIVE CAPACITY

Another method of influencing the size and composition of the national product is through direct control of productive capacity. It involves not only directing the use of existing capacity, but controlling the type and quantity of new capacity, what is commonly called investment control. It includes measures designed to insure the erection and expansion of essential plant and equipment, as well as measures devised to limit or curtail capacity in industries deemed less essential. In grappling with the numerous problems of control the Nazis soon realized that control over productive capacity would not only enable them to shape the developing structure of their economy with an eye to future needs, but would provide a powerful administrative instrument to assist the Supervisory Agencies in the task of controlling production. Attention has already been called to the fact that production, even the production of plant and equipment (productive capacity), can be controlled by forbidding the use of raw materials for any part of a given plant or any item of equipment, or by declining to issue the quotas required for the purchase, sale, processing, or converting of raw materials needed for the construction of a particular plan or item of equipment. Both of these methods, as the Nazis soon discovered, required hundreds of government orders and a tremendous amount of administrative zeal. Much simpler and much more powerful from an administrative point of view was the capacity-controlling investment decree which could in a single stroke restrict the present and future production of unessential items and release men and materials for the more urgent tasks at hand.[33]

Before discussing this particular aspect of control over investment and the other aspects of the problem of controlling productive capacity, attention should be called to the fact that we are not here concerned with action taken to control the capital market, action like the virtual ban on private security issues. Although such measures may from a certain point of view be classified as control over investment, their primary purpose under the Nazis was not so much to affect the construction of plant and equipment, as to control the *method of financing* new investment. The chief objective, as we have indicated elsewhere,[34] was to force private concerns to "self-finance" replacements or expansion instead of competing with the government for the funds available in the capital market, while qualitative control over the composition of productive equipment thus financed was exercised, on the whole, by other agencies. In the absence of evidence to the contrary we are inclined to believe that the power assumed by the government through the Credit Act of 1934[35] to control the credit granted by private banks for investment purposes, was also utilized to influence the method of financing new investment and not only the character of the productive equipment purchased. Our attitude here is only a general impression, however, and we have not been able to locate any definite information either to confirm or discourage the notion.

The Administration of Control over Productive Capacity. Regulating the size of productive capacity in the host of industries that make up the modern economy is a complex task, and no single line of procedure is in itself sufficient. In certain industries, it was essential to forbid the establishment of new enterprises; in others, it was the expansion of capacity in existing plant that had to be forbidden; in still others, the utilization of existing capacity had to be limited or carefully prescribed. Often the situation was such that regulation by general decree was undesirable, each individual project requiring a special decision on its own particular merits. In such cases every increase in capacity was subject to special approval by the Department of Economics. But even when general prohibitions and restrictions were decreed, the Department was given authority to issue, to those who applied, individual permits which were exceptions to the general rule.

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[33] An example may clarify the point. Assume that a decision was reached to call a halt to the production of equipment for the industry manufacturing children's toys. Instead of issuing instructions to every interested industry forbidding the use of raw materials in any items that were to be used as part of the equipment of the toy manufacturing industry, instead of withholding quotas for the purchase, sale, processing, or converting of raw materials to be used in any such item, the government could issue a single decree making it illegal to provide new plant or equipment for the toy manufacturing industry. What is more, by limiting the use of existing capacity it could effectively control the present output of toys. This would make available men and materials which would otherwise be engaged in the manufacture of toys, or toy-making equipment.

[34] See p. 134.

[35] See pp. 121 ff.

Except for a few industries like Retail Trade,[36] Textile,[37] Power,[38] and Agriculture[39] which were controlled by special enactments, the right of the government to regulate productive capacity was embodied in the Compulsory Cartel Act of July 15, 1933,[40] some sections of which were specifically drafted for that purpose. Section 5 provided that under certain circumstances the government could not only fix the rate of utilization of existing capacity, but could prohibit or make subject to its approval the expansion of existing capacity and the creation of new capacity. It was this grant of power that provided the legal basis for regulating production through the control of productive capacity. Between 1933 and the outbreak of war in 1939, seventy-two decrees regulating capacity were promulgated under the authority of the Compulsory Cartel Law. Generally issued for periods between three months and two years, most of them were renewed again and again and were still in force by December 31, 1939,[41] the last date for which information is available. Responsibility for the issuance of these restrictions was lodged in the Department of Economics, and for industries and trades operating under the jurisdiction of the Reich Food Estate, in the Department of Agriculture. While the latter soon delegated its power to the appropriate agricultural organizations, the Department of Economics took no such step until after the outbreak of war,[42] when the decree of March 27, 1940,[43] transferred to the appropriate Economic Groups the authority to restrict capacity in the iron and steel processing industries. Because of the key position of iron and steel processing in the productive process this decree affected a large section of all manufacturing, including iron and steel construction, engineering, automobiles, electrical construction, precision and optical goods, and all steel, iron, and tinplate products. According to the decree, decisions of the Groups could be appealed to the National Group "Industry." The ruling of the latter was final.

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[36] *Reichsgesetzblatt*, 1933, I, 262.

[37] *Ibid.*, 1934, I, 713, and 1935, I, 1411.

[38] *Ibid.*, 1935, I, 1451, and 1936, I, 930.

[39] In each of the twelve decrees issued from 1934 to 1936, creating the Central Associations for the various agricultural industries, a special session dealt with the problem of investment and productive capacity. See, for example, Section II of the Decree Regulating the Grain Industry of July 10, 1935 (*ibid.*, 1935, I, 1006). The provisions are virtually dentical in all twelve decrees.

[40] See pp. 71-72.

[41] *Ministerialblatt für Wirtschaft*, XXXIX (1939), 323.

The Purpose of Capacity Control. Direct measures to control the productive capacity of Germany were among the first steps taken by the Nazis to regulate the economy. Behind these measures was the need to conserve raw materials. If the Nazis were to wage war successfully, they could not afford to squander their scarce stocks to provide equipment for unessential industries, or for industries which required or would require large quantities of foreign raw materials in the future. As early as the summer and autumn of 1933, when plans for the elaborate structure of total economic control were still in a formative stage, investment-regulating decrees were issued, not of course as part of any detailed and integrated plan, but in the hope of economizing the nation's raw materials, for the struggle to come. In this early period some of the decrees undoubtedly served the purposes of the private cartel interests. Some of them may even have been issued upon the insistence of cartels, which were exerting every possible pressure to induce the government to use the Compulsory Cartel Law to curb outside competition.[44] But in view of the general picture of the developing Nazi economy there is reason to doubt that this was usually the case, to doubt that these cartel interests would have been served if they had not coincided with the interests of the government in husbanding the nation's resources for immediate or future utilization in the cause of military preparedness. One should not be misled by the officially fostered notions that the investment decrees were made necessary by "overcapacity" built up in preceding years,[45] or in order to prevent an increase in technological unemployment,[46] or in order to protect small and medium-sized businesses. Even if certain nonmilitary considerations did influence the early regulation of investment, the mere fact that these same early decrees were renewed again and again long after "overcapacity" must have disappeared, long after the Nazis had more reason to fear a labor shortage than unemployment, suggests that they were originally designed to accomplish their military purpose.

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[42] One nonagricultural industry was an exception. In an amendment to the Textile Law of July 5, 1938 (*Reichsgesetzblatt*, 1938, I, 833), power to restrict the utilization or expansion of textile capacity was transferred to the Chamber of Industry and Commerce of the district in which the specific enterprise was located. Before making a decision, the Chamber was to consult with various official and semiofficial agencies, such as the pertinent Economic Group and the Supervisory Agency for Raw Materials. The Department of Economics was to exercise authority only in exceptional cases.

[43] *Ministerialblatt für Wirtschaft*, XL (1940), 139, and *Der Deutsche Volkswirt*, XIV (1940), 953.

[44] See *Kartell-Rundschau*, XXXII (1934), 190.

As the planned economy developed, the important role that had been assigned to the capacity-regulating decrees in reorganizing the structure of the German economy became more apparent. The economy was being streamlined for war, and in the face of the shortage of raw materials it was necessary to prohibit investment, on one hand, in the industries which, by the standards of a military economy, were the least essential, and, on the other hand, in industries which utilized large amounts of foreign raw materials. The latter was important in order to decrease future pressure on imports. Imports were becoming increasingly difficult to obtain, and the Nazis could not afford to permit the economy to develop the kind of structure which would in years to come require larger and larger quantities of foreign raw materials. They knew that war meant "adapting industry to the available raw materials."[47]

Control of Capacity until 1936. In the years that followed the Compulsory Cartel Act the Nazis issued what, at first sight, seems like a bewildering agglomeration of orders affecting productive capacity. But if one bears in mind the ultimate objective of these orders, to control present and future production in the interests of military efficiency, and the fact that specific situations required special kinds of treatment, the differences in detail will be recognized as necessary variations upon a single theme. Instead of attempting a detailed classification of the techniques employed, we shall restrict ourselves to a few typical examples of Nazi procedure which are likely to prove more suggestive than an elaborate catalogue of the different kinds of orders.

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[45] See *Kartell-Rundschau*, XXXII (1934), 190. This was claimed, for instance, in the case of the cement industry *(ibid.*, p. 183*)*, in the nitrogen and cynamid industry *(ibid.*, p. 119*)*, in zinc rolling mills *(ibid.*, p. 180*)*, and the graphic trades *(ibid.*, 1936, p. 832).

[46] This was claimed for an investment prohibition decreed for the cigarette industry in 1934, which was not directed against expansion as such but against the introduction of improved machinery *(Deutscher Reichsanzeiger*, 1934, No. 93*)*, and for a decree of the same year which prohibited the installation of new automatic blowing and pressing machines in the hollow glassware industry, and also made it illegal to resume operating automatic machinery which had been idle in that industry for a certain length of time *(ibid.*, No. 40*)*. This action was taken, according to a commentator, in order to slow up the process of economic readjustment which otherwise might have led to sudden large-scale displacement of men and machines *(Kartell-Rundschau*, XXXII, 1934, 197*)*.

[47] *Reichs-Kredit-Gesellschaft, Germany's Economic Development During the First Half of the Year 1935*, p. 5. See also Leonhard Miksch, "Die Wirtschaftskontrolle der Überwachungsstellen," *Die Wirtschaftskurve*, XVI (1937), 132.

In the case of vital industries, for example, the government was less interested in restricting capacity than in maintaining highly flexible control over all additions to plant and equipment. This was accomplished by making it mandatory to obtain official approval for all projects that might in any way affect productive capacity. Thus provisions in the previously mentioned Power Law specified that all plans for organizing new power companies, or replacing, extending, and closing existing power plants were to be submitted to the Department of Economics for approval. Examples of this kind of supervision can be multiplied. By a decree of September 16, 1937, for example, the Department of Economics was ordered to supervise the creation of new capacity in the iron and steel industry. No new equipment could be constructed for blast furnaces, coke plants, steel rolling mills, forges and presses, foundries, etc., without the specific approval of the Department.[48] Similar regulations were issued for the lumber and wood-processing industries, for plants producing mineral oils, for industries producing aluminum oxide, aluminum hydroxide, aluminum metal, magnesium metal, oil tanks, oil reservoirs, and other oil-storage facilities, for wrecking and dismantling enterprises, for industries processing old and waste rubber, and for those producing fluor spar, heavy spar, and feldspar. Agriculture was no exception. There the establishment of any new enterprise or the resumption of work in enterprises which had been permanently discontinued required special permission from the appropriate agricultural organization. Developments affecting capacity in retail trade illustrate the attempt to conserve raw materials which might otherwise have been used for plant and equipment in nonessential industries. Even before the Nazis seized power, the opening of certain types of retail establishment, such as stores selling daily necessities, guns, liquor, and drugs, were subject to certain restrictions in the interest of public health and safety. In March, 1932, developments under the Nazis were foreshadowed by an emergency decree which prohibited the establishment of new unit-price stores in localities of less than one hundred thousand inhabitants allegedly in order to protect small retail stores against competition from department stores.[49] A subsequent decree of December, 1932, prohibited the expansion and transfer of existing unit-price stores. The Nazis evidently found these policies useful as part of their program for conserving raw materials and capacity, for they not only continued them, but they carried them further. A law of May, 1933,[50] extended the prohibition affecting new unit-price stores to all localities, regardless of size, and made it permanent. Another provision which forbade the establishment of new retail stores of any kind was later revised to make the opening of new and the purchase of existing retail stores dependent on special government permit. To obtain permission, applicants had to establish their competence and reliability. Consent was withheld whenever the government ruled that a field was overcrowded.

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[48] *Deutscher Reichsanzeiger,* 1937, No. 216.

Finally, mention should be made of a restriction upon capacity designed to reduce pressure, not so much on the materials which would be required for the manufacture of additional plant and equipment, but upon the raw materials that would later be consumed in the use of the equipment if built. This was one of the purposes of the Textile Decree of July 19, 1934,[51] which in addition to calling for a drastic curtailment of production in the textile industry (through compulsory reduction of the work week by 30 per cent, a maximum work week of 36 hours, and prohibitions against increasing the labor force) also forbade the erection of a new, or the enlargement of an existing, plant without special permission from the Department of Economics. The automobile tire industry,[52] the lead pigments industry,[53] the industry manufacturing pressed and rolled lead products,[54] and all industries manufacturing or dealing in rubber articles[55] were treated similarly.

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[49] *Reichsgesetzblatt*, 1932, I, 121.

[50] *Ibid.*, 1933, I, 262.

[51] *Ibid.*, 1934, I, 565.

Control of Capacity since 1936. To round out our picture, a few words should be said about developments affecting productive capacity in the few years prior to the outbreak of war. With the launching of the Four Year Plan, military supremacy became the avowed objective of Nazi economic policy. Thereafter the network of investment restrictions was extended rapidly and stringently. By 1937, the regulations in force in all branches of metal-using industries made the establishment of new enterprises, the resumption of operations in previously idle enterprises, the erection of a new production line, the switching of production to a different class of metals, and virtually every change in the production program, dependent upon the permit of the Department of Economics.[56] The size and turnover of new and scrap metal inventories held by commercial and industrial enterprises were carefully regulated.[57] To conserve steel, all private building projects for which more than two tons of structural steel were needed had to be registered.[58] By March, 1938,[59] contractors for such building projects had to secure special building permits from the Labor Office before they could order steel. Residential building was restricted, first, through regulations concerning the use of labor and steel in private construction projects, and, second, by repealing the tax exemption granted to new low-priced residential building in the early Nazi period in order to stimulate such construction.[60] From 1939 on, special efforts were made to extend the restrictions on nonessential building. Control here was especially vital because of the important role that the construction industry played in the rearmament program. Its material and human resources were under increasingly heavy strain. To economize them, construction had to be planned on the basis of the relative urgency of the different projects, armament requirements first, other activities required by the Four Year Plan a close second, industrial replacements third, and, then, investment in agriculture. After the outbreak of war restrictions on nonessential building were tightened even more. A ruling of the General Commissioner, which was eventually relaxed somewhat,[61] prohibited new construction unless required by the war economy. If one wants to understand the basic objective of all this government investment policy, it is well to consider the following statement in *Der Vierjahresplan*, an official publication: "At this stage [of full employment] a watchful economic policy should see to it that the productive forces of the country should not be overtaxed. . . . A ranking of the investment projects in their order of importance [has been] secured [by the new regulations] and when there are vital state investments to be made they should be given the first place."[62] The concept of priority is thus plainly stated as a guiding principle, and by 1939 there was scarcely an industry that had not been affected by the government's investment policy.

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[52] *Deutscher Reichsanzeiger*, 1934, No. 166.

[53] *Ibid.*, No. 176.

[54] *Ibid.*, No. 177.

[55] See Miksch, *op. cit.*, p. 132.

[56] *Ibid.*, p. 133.

[57] *Ibid.*

[58] *Deutscher Reichsanzeiger*, 1936, No. 262, and 1937, No. 169.

[59] *Ibid*, 1938, No. 55.

[60] Reichs-Kredit-Gesellschaft, *Germany's Economic Situation at the Turn of 1936-37*, p. 13.

Measures to Insure Investment. The careful husbanding of human and material resources, and the reorganization of the structure of the German economy in terms of the military purposes of the Nazi leadership, not only involved direct supervision, restriction, and prohibition of private investment, but a host of measures to induce and, if necessary, to compel reluctant private entrepreneurs or enterprises to invest in the projects which the government deemed essential. Steps were taken as early as 1934 to direct private capital into new investments in strategic raw materials. But the problem of insuring private investment for particular purposes did not become really acute until the second Four Year Plan in September, 1936. Although the government was charged with the responsibility of planning and co-ordinating investment under the plan, private enterprise was expected to do the actual investing and producing. One authority asserted: "The erection of the new productive equipment is, as a rule, a task for the private or mixed (state-private) enterprise; so is the financing which should be done by either the individual enterprise or by industries on a common basis. But here as anywhere else National Socialism is not dogmatic; should private initiative fail, the state will undertake, in addition to its role of planning and co-ordination, at least temporarily, the task of financing and construction."[63]

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[61] *Deutscher Reichsanzeiger*, 1940, No. 440, and *Der Deutsche Volkswirt*, XIV (1940), 1742.

[62] *Der Vierjahresplan*, I (1937), 149; see also *ibid.*, II (1938), 539.

Although many special problems must have arisen in connection with the government's insistence upon as much self-financing by private enterprise as possible, we shall not concern ourselves here with the fund-raising techniques of different business units. Our interest is rather in the government's attempts to induce private enterprises to invest in certain key industries. For the government it was largely a matter of providing sufficient incentive for private initiative. Operating upon the assumption that private enterprise would be willing to invest capital if it could anticipate "normal" profits without assuming too great a risk, the government was willing to guarantee both the security and profitability of certain undertakings. It is with these commitments, with the techniques of insuring investment where capital requirements were exceedingly large, and, in certain situations, with measures taken to help private enterprise raise funds in the capital market that we are primarily concerned. They can all be discussed under three headings: individual financing, group financing, and mixed financing.

1. INDIVIDUAL FINANCING. Although the capital market had been closed to most private borrowers since 1933, some exceptions were made for purposes of the Four Year Plan. In spite of these exceptions, however, private industry borrowed fairly little there. When it did, it was often necessary for the government to lend a helping hand to insure success. Thus in 1935 the government guaranteed the interest and amortization of a bond issue to finance the establishment of cellulose fiber *(Zellwolle)* plants. Otherwise, it was feared, the investing public might look askance at the prospects of such an enterprise and fail to support it.[64] In other cases, interest and amortization of private loans were guaranteed by special profit-guaranteeing contracts *(Wirtschaftlich-*

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[63] Heinrich Nicklisch, "Der Vierjahresplan," *Handwörterbuch der Betriebswirtschaft,* II, 2150.

[64] *Der Deutsche Volkswirt,* XII (1938), 1965, and XIII (1939), 1464.

keitsgarantieverträge) between an industry and the government.[65] After the outbreak of war, the government adopted more radical measures, facilitating the financing of some essential projects through a system very similar to the one used by the Nazis to finance government expenditure:[66] A special bank (the Deutsche Industriebank) was authorized to draw bills on entrepreneurs executing the projects; such bills, endorsed by this bank, were discountable at the Reichsbank. The bills were renewable.[67]

More usually, however, private industry was denied access to the capital market and was urged to rely upon its own resources for funds. To combat any reluctance on the part of entrepreneurs to invest, either because they considered the investment too risky or not sufficiently profitable, the government devised various types of income and investment guarantees. We have already mentioned profit-guaranteeing contracts which were developed in connection with investment in industries producing substitute commodities like synthetic oil and rubber. These were new and essential industries which the government sought to protect in their infancy, on grounds analogous to the arguments for infant-industry tariffs. Eventually, it was expected, their costs would fall and outside assistance would become unnecessary. In the meantime, government support was provided through contracts between the government and individual enterprises, in which the former promised to purchase the entire product of the enterprise for the next five or ten years[68] at prices calculated to cover all costs, including depreciation as well as interest and amortization of the invested capital, and a margin of profit which varied from enterprise to enterprise. A special attribute of these contracts was the incentive they provided to entrepreneurs to reduce costs. Since the contracts were so drawn that any decrease in the cost of production meant an increase in profits, the entrepreneur was rewarded for efficient production and indirectly penalized for inefficiency. In this respect the profit-guaranteeing contracts were superior to cost-plus contracts. The latter provided no mechanism for curtailing inefficiency and lowering cost.[69]

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[65] Nicklisch, *op. cit.*, p. 2155.

[66] See pp. 282-283.

[67] *Der Deutsche Volkswirt*, XIV (1939), 9.

[68] *Ibid.*, XIII (1939), 2442, and Nicklisch, *op. cit.*, p. 2149.

[69] Gerhard Mackenroth, "Bericht über den Vierjahresplan," *Jahrbücher für Nationalökonomie und Statistik*, CXLVIII (1938), 721-722.

The Mansfeld Agreement *(Mansfelder Abkommen)* between the Mansfeld Copper Company and the government typifies another device for guaranteeing profit in developing the production of nonferrous metals (copper, zinc, lead) from domestic mines.[70] In 1937, when the company proceeded to self-finance a large-scale program to develop domestic copper mines,[71] it had obtained a contract from the government which underwrote an expected operating loss. This was in effect a subsidy. However, in order to make certain that private entrepreneurs were encouraged to lower their costs of production,[72] a clause in the contract specified that the subsidy was not to be curtailed by the full amount of the savings if the loss could be diminished through reduced costs.

Subsidies were also granted to the shipbuilding industry, but there is little information with regard to the techniques employed. It is, however, safe to assume that a large part of German shipbuilding was supported either by subsidies or direct government contracts.[73]

The technique for financing investment in equipment for synthetic rubber took advantage of a particular set of circumstances.[74] Natural rubber was imported and sold to German industries at a fixed price considerably above the fluctuating price in the world market. The difference between the two prices was taken up by a sliding scale tariff that increased with falling, and fell with increasing, world prices for natural rubber. When first introduced on May 13, 1937, its rate was 125 reichsmarks per 100 kg, which raised the domestic price of natural rubber to 260 reichsmarks per 100 kg. When the price of rubber in the world market fell, the domestic price was maintained at that level by raising the import duty accordingly. Since Germany imported about 80,000 tons of natural rubber a year, the tariff yielded approximately 100 million reichsmarks used either to finance new investment in synthetic rubber plants or to subsidize the consumption of the synthetic product. Just how this fund was distributed among those who built up the industry, is not known. Much of it went to rubber-consuming industries to compensate for expenditures incurred in readapting their equipment to the use of the synthetic product.[75]

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[70] *Der Deutsche Volkswirt,* XIII (1939), 2442.

[71] *Economist,* CXXIX (1937), 310.

[72] Nicklisch, *op. cit.,* p. 2149.

[73] The British Department of Overseas Trade stated *(Economic Conditions in Germany to March, 1936,* pp. 116-117) "that subsidies up to 30 per cent of the cost of construction were accorded to shipping companies to encourage the placing of orders; . . . the government itself through the medium of a financial holding company also placed orders for several vessels which upon completion were handed over to German companies for operation, under special agreements. . . ."

[74] Mackenroth, *op. cit.,* p. 719.

Finally, even though no detailed information is available, mention should be made of special agreements between the government and industries working directly on government contracts (presumably, on production of armaments).[76] These agreements, concerning prices and depreciation allowances, were designed to protect investments in new equipment.

2. Group Financing. When the magnitude of new investment was considered to be far in excess of the financial possibilities of any single enterprise, a formula for "group financing" *(Gemeinschaftsfinanzierung)* was introduced as a means of distributing financial risk equitably among the individual members of a particular group or branch of industry. "Group financing" was usually done on a compulsory basis. The choice of a particular group as joint financiers of a given project was usually justified on the assumption that the enterprises in question would in time gain from the projected investment because it provided either for a new source of raw material or for an additional outlet for their production. This type of financing was used to force private investment in the hydrogenation process for producing synthetic oil. It was also used to finance the production of cellulose fiber and, to some extent, to mobilize private capital for the erection of steel works using low-grade iron ore from domestic mines, notably the Hermann Goering Werke.

Group financing was usually managed through a special kind of business organization created for the purpose and known as the Pflichtgemeinschaft, an organization for compulsory joint financing. Its legal character was defined in the Decree of September 28, 1934, concerning the Lignite Industry,[77] designed to insure the self-sufficiency of Germany with regard to certain raw materials. This decree, which required all producers of lignite to combine into cartels for the purpose of "new and improved valorization of lignite in the interest of the nation," specified that members of the Pflichtgemeinschaft were to supply its capital and share in its investments in proportion to their production. Thus, for example, a Pflichtgemeinschaft called the Braunkohlen Benzin A. G. (Brabag), created in October, 1934,[78] in order to develop the production of synthetic oil by the lignite hydrogenation process, was provided with a capital of 100 million reichsmarks by having all lignite producers with a yearly output of more than 400,000 tons contribute 2 reichsmarks per ton of annual product. The justification was the additional market that would be provided for the lignite producers. To make certain that it could exercise effective control over the Pflichtgemeinschaft, the government appointed a Reich Commissioner as its legal representative. He not only represented the government on the board of the operating company, but exercised wide discretionary powers. He could veto decisions of the stockholders and board of directors, and could enforce his own decisions. He could, by following a procedure laid down by the Department of Economics, transfer shares subscribed by original members of the Pflichtgemeinschaft to additional members who joined later. A similar Pflichtgemeinschaft was established in October, 1935, when the coal mines of the Ruhr, under "moral" pressure from the government, subscribed 4.5 million reichsmarks for the Ruhr Benzin A. G., a concern which was to produce synthetic oil by the Fischer-Trapsch process. Additional capital to finance the installation of equipment was provided by a group of banks in the form of long-term credits guaranteed by the government and not due until 1946.[79] In February, 1936, a government-suggested Pflichtgemeinschaft to finance the production of Diesel oil by the low temperature carbonization process was organized by these same Ruhr coal mines.[80]

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[75] *Economist*, CXXVII (1937), 454.

[76] *Der Deutsche Volkswirt*, XIII (1939), 2442.

[77] *Reichsgesetzblatt*, 1934, I, 863.

Finally, mention should be made of the use of the Pflichtgemeinschaft, in 1935, to finance the cellulose industry, which was to produce an artificial staple that could be substituted for imported natural fibers. This new industry was developed on a regional basis, the Rheinische Zellwolle A. G., in the Rhine region; Süddeutsche Zellwolle A. G., Kulmbach, in Southern Germany; Schlesische Zellwolle A. G., Hirschberg, in the Silesian district; Sächsische Spinnfaser A. G. Plauen, in Saxony. Instead of assessing the producer of the original raw material as in the case of the lignite industry, the government now placed the burden upon the textile industry, the prospective consumer of the substitute raw material. The capital stock of the new companies was absorbed by the textile industry in accordance with quotas laid down by the Department of Economics on the basis of the financial strength of each subscriber. Lack of enthusiasm and confidence in these shares in trade circles was countered by government pressure, which became a compulsion to purchase. But the shares eventually became more popular because of the ingenious idea of entitling their holders to priority rights for delivery of the synthetic staple. By 1939, this privilege was sufficiently important to create an active demand for the very stock which was originally forced upon the members of the industry.[81] Capital to erect plants was provided by compelling the banks to furnish long-term credits at low rates of interest. These loans were guaranteed and repayable by 1946.[82]

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[78] *Ibid.*, 1934, I, 1068.

[79] Hans E. Priester, *Das Deutsche Wirtschaftswunder* (Amsterdam, 1936), p. 133.

[80] *Ibid.*, p. 136.

3. Mixed Financing. This particular method of financing new equipment was used in the case of the Hermann Goering Werke, A. G., organized July 15, 1937, for the development of low-grade iron ore deposits in the Salzgitter district. The official organ of the Four Year Plan suggests that "the scope of the problem on hand soon made it apparent that the German steel industry could not, by itself, shoulder the responsibility and burden of the realization (of the program). . . . Hence, government initiative had to be used to a greater extent."[83] Behind this euphemistic statement is the simple fact that the government, confronted by a steel industry which balked at financing the project, had to finance it itself, at least in its initial stages. A state corporation was therefore formed with an original capital of 5,000,000 reichsmarks. In April, 1938, the capital was increased to 400 million reichsmarks, 265 million reichsmarks representing voting stock, most of which was taken over by the government, and 130

[81] *Der Deutsche Volkswirt,* XIII (1939), 1464.

[82] *Ibid.,* XII (1938), 1965.

[83] *Der Vierjahresplan,* II (1938), 514.

million representing nonvoting cumulative preferred stock with a government-guaranteed minimum yield of 4.5 per cent, plus participation in the profits. The preferred stock was assigned to interested economic groups, in this case, all the iron- and steel-processing firms, each of which received a certain quota on the basis of the labor force it employed. Mixed financing thus permitted private enterprises to participate in the profits of the government-controlled corporation in exchange for the capital they invested, but made it impossible for them to interfere in the conduct and management of the new corporation.

Chapter 7

Control of Labor

THE ABOLITION OF FREE COMPETITION AND COLLECTIVE LABOR LEGISLATION, 170. THE LAW REGULATING NATIONAL LABOR, 176. THE GERMAN LABOR FRONT, 179. THE PRICE OF LABOR, 182. THE DISTRIBUTION OF LABOR, 190— The Institutions for the Distribution and Allocation of Labor, 192; The Shift from Employment Exchange to Labor Allocation, 196; General Measures of Distribution and Allocation, 197; Compulsory Labor, 199; Limitation of Labor Turnover, 201; Agricultural Labor, 202; Skilled Labor, 204; Increasing the Labor Force under Full Employment, 208.

The Abolition of Free Competition and Collective Labor Legislation

The last century witnessed gradual changes in the traditional market mechanism as large business organizations suspended competition and governments took steps to protect their citizens from the harsher effects of the free play of supply and demand. This development showed itself clearly in the labor market of pre-Nazi Germany. Competition among the purchasers and sellers of human labor, so characteristic of a "free" labor market, was rapidly disappearing. Large numbers of sellers abolished competition among themselves by joining trade unions. Purchasers of human labor were united in employer associations which bargained collectively with the trade unions. In addition, the government took an active part in the determination of wages and salaries. Under certain circumstances it was authorized by law not only to issue compulsory awards, but to make its decisions as well as collective agreements binding for workers and employers who had not participated in the original negotiations. Competition in the labor market was restricted to the relatively small area in which the unions did not enjoy sufficient strength, or to occasions when employers in a given industry attempted to attract workers from other enterpreneurs or industries by bidding the price of labor up above the minima set in the collective agreements and government awards.

Accompanying the disappearance of competition from the labor market was a growing recognition of the right of organized labor to participate in the making of decisions which affected the welfare of workers. Between 1918 and 1927 labor made great strides as it won new opportunities to be heard. In the labor courts, in the social insurance institutions, and in the employment exchange system, representatives of organized labor performed important functions. One of the three judges in the lower labor courts was a trade union representative. In the administrative bodies of the social insurance and employment exchange institutions, representatives of organized labor shared responsibilities equally with the representatives of employers. Every plant, factory, and office had its work council, which acted collectively on behalf of the employees of the particular enterprise, supplementing the trade unions which represented the workers of an entire industry. Thus, even though the political upheaval at the end of the war in 1918 did not fulfill the expectations of many of the best leaders of the German labor movement, it did usher in a pattern of industrial relations which proved to be one of the most significant changes in the political, economic, and social organization of Germany.

These relations were among the first targets of the Nazi regime. As soon as it seized control, it wiped out every semblance of independent collective action by labor. Labor representation was eliminated. The trade unions were destroyed. The right to strike was abolished. Collective bargaining and the vast machinery for settling labor disputes were discontinued. As a substitute for the trade unions the Nazis imposed the German Labor Front, a party-dominated organization of all the men and women in the country who performed "human labor," employers and employees alike. Wages, salaries, and working conditions, previously determined by the bargaining power of the various negotiators, were now fixed by Trustees of Labor, government appointees from whose decisions there was no appeal. With the passage of time government controls tightened, labor was made increasingly less mobile, competition among employers for workers disappeared, and complete regimentation became the order of the day. The workers became automatons in the service of a military state, a state which dictated the type of work, the place of work, the hours of work, and the income from work.

This change in labor's position in the German economy is fundamental to an understanding of the development under the Nazis. In pre-Nazi Germany democratically enacted labor legislation provided for institutions to protect the worker against exploitation by employers, to protect him as a human being against the mechanical processes of the free market system. Such legislation represented a triumph of collective labor activity, which had its roots in the political freedom of the worker. The worker as an individual with rights as well as responsibilities could unite with fellow workers to exert pressure on elected representatives. He could demand social control and to some extent influence its direction. Under the Nazis independent group action was forbidden. The worker became a member of organizations in which he had no influence, no rights. Dr. Ley, the head of the German Labor Front, called the workers, with perhaps unwitting accuracy, "soldiers of work."[1] This, it developed, was more than rhetoric. It emphasized that soldiers are creatures of duty, that obedience, not independent thought or action, is their great and necessary virtue. Embarking upon a career as a worker meant becoming part of a system which he could not influence. He had to accept it, take his place in it, and docilely perform the tasks assigned to him on the pain of placing himself outside the established order (which under the Nazis could easily have meant a concentration camp). Hitler summed up the position of the workers as follows: "There is only one right in this community, the right that results from the observance of duties which are assigned to every individual."[2]

In harmony with this conception of the worker as soldier, some Nazi jurists denied the existence of a contractual relationship between employer and employee. The relationship between them was based upon the obedience of the worker, it was argued, and therefore the worker could no more enter into a contract with an employer, than a soldier can with his superior.[3] As soon as a worker accepted employment with an entrepreneur, a "community relationship" was said to be created, which was described as "a work relationship based upon loyalty, honor, and accomplishment in which the worker makes use of his ability to work in the service of his employer."[3] The "work relationship" merely established the legal connection between employer and employee.[4] No longer did it cover the conditions of work which were now determined by legal provisions, by decisions of the Trustees of Labor, and by "enterprise rules" issued by the entrepreneur. Any attempt by the workers to argue or bargain over conditions of work would have been construed as a violation of their duty to be obedient.

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[1] Robert Ley, *Soldaten der Arbeit* (München, 1938), p. 7.

[2] *Deutsche Sozialpolitik* (Bericht der Deutschen Arbeitsfront, Zentralbüro, Sozialamt, Berlin, 1937), p. 2.

In historical perspective the system of Nazi labor relations looks like an atavistic mutation. Throughout the ages men have served other men under varying conditions of involuntary servitude. There have been slaves, coloni, serfs. Only the former were chattels, owned and dealt with as property. But both coloni and serfs were compelled to render services to others in amounts and circumstances over which they had no control. With the decline of feudalism, came an era of progressive emancipation for those who labored. They now had the right to dispose of their working-power anywhere and in any way they saw fit. That they could organize for collective action enormously strengthened their bargaining position. Under the Nazis it was not exactly a slave-status that was restored to them. They were not held as property by the entrepreneurs. But they were no longer free to exert overt pressure to improve their circumstances. They had to accept the assignments and remuneration which were meted out to them. There was no appeal, no opportunity to seek redress. This was not necessarily accompanied by deterioration in working conditions. Even the slaveholder recognized that his labor force was a capital investment to be kept in good working order for as long as was profitable. The Nazis, no less astute, realized that their ultimate objectives required workers in good health and, if possible, in good morale. While they would not brook interference with their fundamental institutions governing industrial relations, while they would not tolerate the activity of independent labor organizations, they did not hesitate to court the workers in other ways.[5]

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[3] Wolfgang Siebert, *Das deutsche Arbeitsrecht* (Hamburg, 1938), Introduction, p. 5.

[4] The mere fact that wage and salary earners could sue their employers before a Labor Court, is proof that the courts continued to consider the work relationship a legal contract. That this was denied by leading Nazi jurists is an indication that they recognized the important change in the significance of the contractual relationship. It was a "contract," the details of which one of the partners could not even discuss, let alone influence by negotiations. For further discussion of the legal problems, see Hilmar Westphahl, *Die Nichtigkeit von Arbeitsvertrag und Arbeitsverhältnis auf der Grundlage des A. O. G.* (Weimar, 1938), pp. 18 ff.

What was behind all these changes? Why was the independent labor movement destroyed? The spread of government controls over labor, the suspension of the freedom to change one's occupation or location, the abolition of every vestige of free competition, even the determination of wages by the government, may be explained in terms of the technical requirements of the huge military establishment which the Nazis were erecting. We have, for example, made mention elsewhere of the decisions of the Nazis to limit the spending potential of the population for reasons associated with developments in a military economy. Wage control can be explained in these terms. Similarly, the extension of other controls may be understood as a response to other problems which arise in connection with maximizing production for military purposes. But the way in which some of these problems were met, and the complete change wrought in the status of labor, indicates that much more than the technical requirements of a military economy was involved. Other countries now engaged in the global conflict have managed to obtain the voluntary support of the organized labor movement without destroying its independence. It has been suggested that the primary objective of Nazi labor policy was a reduction in labor's standard of living. But it is superficial to suppose that the abolition of independent collective labor activity must necessarily be accompanied by a decline in the real income of the workers, that it precludes any increase in that income.[6] The Nazi government was motivated by more complex considerations.

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[5] It is outside the limits of this study to analyze the Nazi activities and institutions which actually benefited labor in greater detail. On the top of the list we should place "Strength through Joy," from which many hundreds of thousands of workers derived great satisfaction. Another example is the Law of March 23, 1934, concerning Home Work *(Heimarbeit;* "domestic industry" is sometimes given as a translation of "Heimarbeit"*)* *(Reichsgesetzblatt,* 1934, I, 214, and 1939, I, 2145*)*, which meant a great improvement in the working and living conditions of many thousands of the poorest and most neglected workers (see Franz Seldte, *Sozialpolitik im Dritten Reich*, Berlin, 1936, pp. 35-37, and Johannes Gerhardt, *Deutsche Arbeits-und Sozialpolitik,* Berlin, 1939, pp. 113 ff.).

[6] See pp. 332 ff.

The key to their actions is a conflict of ideology and purpose between the trade union movement and the Nazis, a conflict so fundamental that compromise was out of the question. For one, the Nazis were determined to change the distribution of the national income in the direction of a smaller share for the workers. This change performed at least two functions. It meant that a smaller percentage of the nation's income would be available for consumption, thus easing the pressure on consumers' goods and facilitating the accumulation of funds for capital investment. At the same time it meant a larger share for the entrepreneurial and capital-owning class of the population, which had supported the Nazi bid for power with the understanding that the back of the labor movement would be broken. The independent trade-union groups could not be expected to sign their own death warrants, or to surrender what they considered their rightful share of the national income. Unless they were destroyed, they would insist upon being consulted and would not hesitate to use their bargaining power or to resort to the strike. Throughout their history they had aspired to industrial democracy. Theirs was a vision of a better life for the workers, to be achieved by changing the distribution of the national income in favor of labor and at the expense of capital. Every increase in the strength of organized labor put it in a better position to achieve its aims, and endangered the profit margins of individual enterpreneurs and capital as a whole. From the point of view of the Nazis, therefore, there was no alternative to doing away with the independence of labor. Backed by the military power of the State and their own private army, they were able to introduce a "new order" in labor relations which completely destroyed the bargaining power of the worker and placed him at the mercy of the government. Thereafter, the government alone decided upon the distribution of income. Between 1933 and the war labor's relative economic position deteriorated. Its share in the national income was considerably reduced; capital's was increased. The Nazis accomplished their purpose.[7]

But even this does not tell the whole story. A good part of it has to do with the military ambitions of the Nazi regime.

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[7] See pp. 336-339.

Their plans for the conquest and enslavement of Europe required that the German people be prepared for active belligerency, not only economically and militarily, but psychologically and morally. This was no small undertaking. It meant enlisting the co-operation of the population in support of aggression, which was very likely to lead to world conflict. To have permitted an informed and well-organized opposition to agitate large sections of the population by exposing the designs of the Nazi leadership would have jeopardized not only their plans but their political existence. In the independent labor movement the Nazis recognized just such an opposition. Its ideals were antagonistic to those of the Nazis. It would have opposed the imperial ambitions of any power, and all plans to conquer and despoil the Continent. Active, well disciplined, influential, with a tradition opposed to everything for which the Nazis stood, the labor movement constituted the greatest potential threat to their existence. It is not surprising then that the Nazis destroyed it. They had every reason in the world to fear it.

THE LAW REGULATING NATIONAL LABOR

Employer-employee relations in Nazi Germany developed within the framework of the Law concerning the Regulation of National Labor, promulgated on January 20, 1934.[8] The misleading terminology of the act fails to obscure its purpose, which was to supplant the traditional contractual relationship between employer and employee by a relationship called an "enterprise community," in which the entrepreneur was the "leader" and the wage and salary earner the "follower." The name "enterprise community" *(Betriebsgemeinschaft)* was designed to deny the existence of a conflict of interest between capital and labor. Both were engaged in a common enterprise. Both were equally interested in its success. As a result, there was to be a united effort, each man contributing to the best of his ability. Discord between economic classes was allegedly a thing of the past. Hereafter there was to be only harmony as leaders and followers assumed their social responsibilities. Leaders were duty-bound to "take care" of their followers. Followers were to respond with

[8] Gesetz zur Ordnung der Nationalen Arbeit *(Reichsgesetzblatt*, 1934, I, 45).

the loyalty which is "basic in an enterprise community." As leader, the entrepreneur assumed sole responsibility for the management and conduct of a business, followers having no right to intrude with requests or recommendations. The determination of conditions of work was part of this entrepreneurial responsibility. Those employing more than twenty persons were compelled to make public a set of "Enterprise Rules" *(Betriebsordnung)* fixing hours of work, wages, salaries, and other working conditions. These basic rules, which invalidated all earlier arrangements, were to be so drawn as to permit additional remuneration to workers on the basis of individual efficiency.[9]

Allegedly as a check upon the entrepreneur, the Law provided for a Special Committee (Vertrauensrat) to review the Enterprise Rules and other measures that might increase productivity, advance industrial safety, or improve the spirit of members of the "enterprise community." If a majority of the Committee decided that a decision of the "leader" was not in harmony with the economic and social interests of the enterprise, it could file an appeal with the Trustees of Labor. It is difficult to believe, however, that the Special Committee was an effective rein on the entrepreneur.[10] Its powers were only consultative. Even though representatives of the "followers" made up the bulk of the Committee, they were chosen from candidates nominated by the entrepreneur in agreement with the Nazi party.

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[9] In this section we are concerned only with the provisions of the Law concerning the Regulation of National Labor. We shall see later that in actual practice conditions of work were carefully regulated by the Trustees of Labor.

[10] Another ostensible check upon the entrepreneur was the so-called "Honor Court," a novel institution of the Nazis. Violators (employers or employees) of the social obligations of an "enterprise community" were tried before these Honor Courts. A "leader" was considered to have violated his social obligations, if, for example, he exploited his "followers" viciously or insulted them; a worker, if he disturbed the peace of the enterprise by inciting fellow workers or by continually airing unjustified complaints before the Trustees of Labor. Penalties included money fines, censures, warnings, dismissal of workers, and disqualification of "leaders." Suits were brought to court by the Trustees of Labor. In 1934, there were 65 cases before Honor Courts; in 1935, 204; and in 1937, 251. In relatively few cases (in 18 out of 204 in 1935) were the suits brought against workers; in the majority of cases "leaders" of enterprises were the defendants. Acquittals were rare. But the penalties were very mild. Only 4 out of 76 money fines in 1935 amounted to more than 1,000 reichsmarks. Exploitation and insulting workers were the most frequent grievances (*Reichsarbeitsblatt*, XVI, 1936, Pt. II, p. 415, and *Monatshefte für N. S.-Sozialpolitik*, V, 1938, 520). The number of cases brought before Honor Courts steadily declined. There were 232 cases in 1938; 142 in 1939; 72 in 1940; and 66 in 1941. Forty-three cases were finally disposed of in 1941, five of which ended in acquittals; seven out of 23 money fines exceeded 1,000 reichsmarks. In three cases the defendants were disqualified as "leaders" of enterprises *(Die Deutsche Volkswirtschaft*, 1941, p. 778, and *Reichsarbeitsblatt*, XXII, 1942, Pt. V, p. 415).

To be eligible for nomination, they had to be Labor Front members whose loyalty and devotion to the "National State" was beyond question. Moreover, the "leader" was himself not only Chairman but a voting member of the Committee, not merely the party with whom the Committee negotiated.[11] Whatever independence the Special Committee enjoyed practically disappeared when the Nazis discontinued the elections of workers' representatives. After 1935 there were no further elections. Instead, the tenure of the incumbents was regularly extended, the last time in 1938 "until further notice,"[12] and the Trustees of Labor were authorized to fill vacancies. The Committee's right to appeal over the head of the "leader" was not, therefore, a significant instrument for controlling the enterpreneur. At best, it served only to direct the attention of the Trustees of Labor to specific situations. And even this was not easy, for the administrative rules to the original law prescribed a procedure for filing an appeal[13] that was calculated to discourage the workers' representatives. Before an appeal could be filed, it had to be discussed by the entire committee including the "leader." If he rejected it and a majority of the group decided to appeal, they could do it only through his offices. He had to be asked to submit the appeal to the Trustee of Labor.

The Trustees of Labor[14] were government officials appointed by the Federal Department of Labor and subject directly to its instructions. Originally there were thirteen of them, but the number grew to twenty, one serving in each of the twenty districts into which the country had been divided for the purpose by joint decision of the Departments of Labor, Economics, and Interior. To these Trustees the law gave extremely broad powers which, we shall see later, turned out to be more sweeping than the text of the law suggests. Since the Nazis had abolished trade unions, employers' associations, arbitrators, arbitration boards, and the entire institutional structure within which collective bargaining took place, they were in need of an agency to perform analogous functions. The Trustees of Labor were that agency. Their task was "to secure the maintenance of industrial peace," which in practice meant that theirs was the power to dictate and enforce conditions of work. According to the law a Trustee of Labor, after consulting a "Committee of Experts" appointed by him, could issue general directions for "Enterprise Rules" or individual labor contracts.[15] The Trustee could go even further. If he felt that the protection of employees in a particular group of enterprises required it, he could, again after consulting the Committee of Experts, replace the "Enterprise Rules" by "Industry Rules" *(Tarifordnung)*, which fixed minimum conditions of work. These rules could not be appealed. The decision of the Trustee was final in the matter. We shall see later that the Trustees did not treat these provisions in the law as conditional grants of power. They treated them rather as clear-cut authorizations to act whenever and however they saw fit. Other functions assigned to the Trustees by the law are minor in comparison with those just mentioned. But since the Trustees of Labor turned out to be the most important institution in the Nazi labor market, some of them should be mentioned. They were to supervise the establishment as well as the activities of the Special Committees, and under certain circumstances had the right to appoint or dismiss the workers' representatives on the Committees. In addition, they had powers with regard to dismissal of employees, with regard to the Honor Courts, and according to the law could be assigned other powers by the Department of Labor. Theirs was also the task of making available to the government information concerning developments in industrial relations. Violators of their instructions faced money fines and imprisonment.[16]

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[11] "The Committee is an organ of the 'enteprise community' and may not represent special interests" (evidently the interests of the workers); see Gerhardt, *op. cit.*, p. 86.

[12] *Reichsgesetzblatt*, 1938, I, 358.

[13] *Ibid.*, 1934, I, 187.

[14] The institution known as the Trustees of Labor was originally created by Law of May 19, 1933 *(Reichsgesetzblatt*, 1933, I, 285*)*. This law was superseded by the Law concerning the Regulation of National Labor. In addition to the permanent Trustees of Labor, "Special Trustees of Labor" may be appointed from time to time for individual industries or for specific purposes.

The German Labor Front

Another institution which functioned in the labor sector of the economy is the German Labor Front. Its role has been greatly misunderstood; in practice, its part in the determination of labor conditions was insignificant. "Legalized" not by an official statute but by an order of October 24, 1934,[17] issued by Hitler in his capacity as head of the Nazi party, the Labor Front was organized on a functional and territorial basis, and run in accordance with the leadership principle. Officially, membership was not compulsory. Any gainfully occupied person, wage earner, salary earner, enterpreneur, or professional, could become a dues-paying member. But the pressure to join was so great that it is unlikely that many eligibles failed to become members. Membership was compulsory, however, for certain organizations, such as the Reich Economic Chamber, all Economic Groups, all Chambers of Industry and Commerce and of Handicraft, the Reich Food Estate, and the Reich Culture Board.

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[15] The law actually uses the word "contracts" here, the only time it does.

[16] In addition to the above provisions, the Law concerning the Regulation of National Labor contained other regulations concerning dismissals, Honor Courts, etc., which fall outside the scope of this study.

The Nazis often fostered the impression that the Labor Front was the successor of the trade unions, exercising similar functions. This is simply an officially sponsored lie, made no less false by the fact that the Labor Front occupied the buildings which formerly housed the trade unions, and inherited all their property. The fact of the matter is that the Labor Front was neither an organization for the workers nor by the workers. Unlike the trade unions, it enjoyed no independence. Yet it was not an official organ of the State. It had an official character without being a government agency because it was affiliated with the Nazi party. The Labor Front was primarily concerned, not with conditions in the labor market, but with supervisory and welfare work and with the task of political education for the ultimate purpose of the Nazi State. In a public statement of November 27, 1933, addressed to all "working Germans," the Secretaries of the Departments of Labor and Economics, joined by other high Nazi officials, described the objective of the Labor Front as follows: "The Labor Front is not the place where the material questions of the daily life of labor are decided. . . . The true object of the Labor Front is the education of all laboring Germans in the spirit of the National Socialist State."[18] And in the 1934 organizational order, the Labor Front was said to have been formed "to see to it that everyone in the country did his work in the national economy under mental and physical conditions which would enable him to achieve his highest efficiency and thereby render the greatest possible service to the community." While these educational objectives were, no doubt, particularly important, especially in the early days, it would be a mistake to assume that this task completely absorbed the Labor Front and its many hundreds of ambitious officials. They undoubtedly wanted to exert their influence in labor matters, particularly since many of them actually believed their government's propaganda and considered themselves genuine successors of the earlier trade-union movement, and others actually had been functionaries in the pre-Nazi trade unions. It is not unusual to find references in the German literature to the prolabor bias of the Labor Front, and from what we are able to ascertain we should not be surprised if, compared to other government agencies, there were not some modicum of truth in the accusation, especially with regard to some of the older officials.

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[17] Claus Selzner, *Die Deutsche Arbeitsfront* (Berlin, 1935), pp. 24 ff.

[18] *International Labor Review*, XXIX (1934), 455.

The specific functions officially assigned to the Labor Front include enforcement of protective labor laws, supervision over working conditions, provision of legal advice to its members, representing them before Labor Courts[19] and insurance authorities, and playing an active role in the training and retraining of wage and salary earners and in vocational guidance. In addition, it was to concern itself with welfare problems, housing, aid to workers in plants, and with other functions—such as Strength through Joy, or Beauty of Work, which fall outside the scope of this study. By 1935 special arrangements had to be made between the Labor Front and the Departments of Labor, Economics, Agriculture, and Transportation with regard to delimiting the functions of the Labor Front. An "agreement" signed by the Labor Front and the various government departments just mentioned (the so-called "Leipzig agreement") and confirmed by Hitler on March 21, 1935,[20] clearly stated that all matters of economic policy, such as wages, hours, and other conditions of work, were not the concern of the Labor Front, but were to be dealt with exclusively by the Trustees of Labor. As a result, the Labor Front could play only a negligible role in the formulation of policy in the labor market, but it remained very active in the supervision of these policies and in the protection of individual and groups of workers against abuses possible under existing laws and government regulations. In later years it carried out many statistical investigations on conditions of work, particularly wages.

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[19] The Labor Courts, which had great significance in pre-Nazi Germany, lost a good deal of their significance after 1933 (for a detailed discussion, see Taylor Cole, "National Socialism and the German Labor Courts," *Journal of Politics*, III, 1941, 185). The Labor Front enjoyed a monopoly as far as legal representation and legal aid before Labor Courts was concerned. According to Section II of the Law concerning Labor Courts of April 10, 1934 *(Reichsgesetzblatt*, 1934, I, 319), only employees of the Labor Front or lawyers authorized by it could represent the parties before Labor Courts. In practice, the Labor Front granted legal aid only (1) when the lawsuit promised to be successful, and (2) when it was compatible "with National Socialist principles and the principles of honor of labor." There is, of course, no way of knowing how many or how few lawsuits growing out of industrial relations were "compatible with National Socialist principles" and promised to be successful for the plaintiff. It is quite possible that many lawsuits which under previous legal and judicial conditions would have been brought into court, were never started.

THE PRICE OF LABOR

In the introduction to this chapter and in the discussion of the Law concerning the Regulation of National Labor, we indicated that wages and salaries were no longer to be determined by collective negotiations between employers and employees or even in individual bargaining between employer and employee. The law gave to the employer the unilateral right to fix the conditions of work affecting the "work relationship," and to change those conditions at any time without previous notice to his employees. At first glance this seems like a tremendous grant of discretionary authority to the entrepreneur, a virtual restoration of the freedom to fix working conditions which he enjoyed in the early stages of capitalism. But under examination it turns out to be another case of the Nazis talking the language of freedom for the entrepreneur, while they concentrated control in the hands of the government. It was unthinkable that a government bent on controlling the economy as an instrument of military aggression should leave to entrepreneurs the task of determining one of the most important prices in the economy, wages and salaries. In practice it did not. As in other branches of the economy, so here the government talked in one way, behaved in another. The same law which theoretically restored the freedom of the entrepreneur gave the government the right to override his decisions. The Trustees of Labor, government officials, could annul the "Enterprise Rules" in which an entrepreneur had fixed working conditions for his enterprise,[21] could issue directions which the entrepreneur had to follow in drawing up "Enterprise Rules" or individual labor contracts, or could supersede the "Enterprise Rules" by issuing "Industry Rules" fixing work conditions in whole industries or group of enterprises. Whenever the Trustees of Labor issued "Industry Rules" or instructions for "Enterprise Rules," the conditions prescribed therein constituted minimum terms for all enterprises.

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[20] Selzner, *op. cit.*, pp. 28 ff.

[21] Gerhardt, *op. cit.*, p. 87.

The official gazette of the Federal Department of Labor, the *Reichsarbeitsblatt*, reveals that the Trustees of Labor issued many such "Industry Rules" and that these rules actually became the normal instrument for defining and regulating industrial relations, replacing the collective agreements of pre-Nazi years.[22] From this it seems clear that the Nazis recognized that wage and salary regulations for groups of enterprises and entire industries served not only the social function of protecting employees against wholesale wage reductions, but also an economic function, the protection of employers against the cut-throat competition sometimes made possible by reducing wages. Since it took time to draft new regulations for so many industries with complicated labor conditions, the government's early policy in the labor market consisted of extending the validity of the pre-Nazi collective agreements in force when the Nazis took over. This meant that the admittedly low wage rates and salaries established in collective agreements negotiated during the depression were now the permissible minima. There was, as yet, no need to take steps to prevent an increase in wages and salaries. Unemployment was still too large to make any such increase likely. The old collective agreements continued to be renewed until June 30, 1937.[23] By then the Trustees of Labor seem to have issued "Industry Rules" for all the important industries.[24] Complete government control over the labor market meant basic changes. Collective bargaining and all that it implied were dead. The temporary security offered by the life of a contract was a thing of the past. "Industry Rules" had no fixed time period and were subject to change by the Trustees whenever they saw fit. Without knowing more about the actual relationships between entrepreneurs and the Trustees of Labor, it is impossible to say how much influence the entrepreneurs were able to exert on working conditions. But we do know that the employees, deprived of the right of independent economic or political organization, had no voice on the determination of the price paid for their labor power.

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[22] It was freely admitted that the Industry Rules—there existed 2,110 on January 1, 1941—had become the solid basis of the entire wage structure (far beyond the original intentions of the Law regulating National Labor) and that Enterprise Rules played only a minor, supplementary role (*Soziale Praxis,* L, 1941, 386-387).

[23] *Reichsarbeitsblatt,* 1937, I, 164.

[24] In some instances, old collective agreements were included as "Industry Rules" into the Trustees of Labor's lists of Industry Rules (*Reichsarbeitsblatt,* XXI, 1941, Pt. V, p. 209).

Official Nazi commentators took great pride in the provisions of the Labor Law affecting conditions in the labor market. It was said, for example, in an official publication of the German Labor Front[25] that Nazi wage policy was based on two principles: (1) to secure a minimum income to everyone in the community, and (2) to make the wage income dependent upon the actual work of the wage earner (efficiency wages). In other words, the "Industry Rules" of the Trustees of Labor were designed to guarantee to every worker not only an income consistent with his minimum requirements for a livelihood, but the opportunity to augment that income through superior performance. The worker, however, the official publication adds, has no legal right to *request* efficiency wages, and cannot sue his employer for remuneration on that basis! In practice the wage policy enforced by the Nazis was a good deal simpler and cruder than all the palaver about minimum and efficiency wages suggests. Although every industrial and commercial enterprise was said to be a "community enterprise" for whose success employers and employees were equally responsible, the participants did not share equally in the social product. This was not only a matter of social philosophy. It was expedient from the point of view of the military purposes of the Nazis, which required an ever-increasing amount of entrepreneurial saving for further capital investment in productive capacity. While the surplus of numerous enterprises continued to increase, wage rates were kept rigidly on the low depression levels. (This, of course, did not prevent considerable increases in the total earnings of many employees because of increase in hours of work, reclassification, or overtime rates.)[26] Werner

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[25] *Deutsche Sozialpolitik, op. cit.*, pp. 16 and 22.

[26] For further details of actual earnings, see pp. 346-349.

Mansfeld, who was the official in the Department of Labor responsible for labor relations and labor conditions, boasted in an article published a few months before the outbreak of war, that stability of wage rates had been secured to an extent which only few would have considered possible in 1933: "Wages have risen only to a very limited degree. Some wage rates which had not been adjusted in a long time and which were extraordinarily low were raised in the most careful manner."[27] This was the case, for instance, in the building, mining, and textile industries, on farms, in shipping, and for home work; in addition, certain local and regional inequities were ironed out.[28] We are inclined to believe that these are by and large the only official increases in money wage rates which took place before the outbreak of war. Had there been others the Nazis would certainly have called attention to them. They were never bashful about publicizing benefits which they had to offer.

The general statement about the stability of money wage rates is supported by information about individual wage rates in various industries[29] and by an index on wage rates which was published for the first time in 1938.[30] Taking 1936 as the base year=100, the index of money wage rates for skilled and unskilled workers in all industries was 100.1 in 1933, 100.1 in 1937, and 100.5 in 1938. But since, according to official Nazi statistics, prices for daily necessities moved upwards during those years, wage rates in "real" terms declined by about 5 per cent. When adjusted for the changes in cost-of-living, the "real" wage-index (1936=100) was 105.5 in 1933, 100.1 in 1937, and 99.3 in 1938 After the outbreak of war, money wage rates increased slightly. Since, however, the increase in cost of living (even according to the official index)[31] exceeded this increase in money wage rates, the decline in real wage rates was further accentuated. The index of money wage rates rose to 101.7 in 1941, while the real wage index declined to 94.3 in the same year, a decline of about 10 per cent since 1933.[32] Since the official index of money wage rates and the wage rates published for individual industries obviously refer to wage rates fixed by the Trustees of Labor, it is not at all impossible that, before the outbreak of war, wage rates actually paid in some industries were lower than those fixed by the Trustees, in spite of the stability displayed in the publications mentioned before. Nowhere in the Nazi literature have we found specific mention of reduced money wage rates, except for very slight declines.[33] But it is worth noting that the Fourteenth Decree of October 15, 1935, concerning Administrative Rules for the Labor Law[34] empowered the Trustees of Labor to exempt individual enterprises or parts of enterprises or individual employees from the provisions of Industry Rules, provided that such action appeared necessary for economic or social reasons. A special section of the decree provided that such exemptions by the Trustees did not need to be published in the official labor publication in which all Industry Rules, regulations for Enterprise Rules, and changes concerning them had to be printed.[35] Since the provisions of Industry Rules constituted minimum conditions of work, and since other Nazi publications emphasize that increases above the minima were seldom permitted, there is reason to believe that that decree gave the Trustees permission to break their own Industry Rules and permit subminimum standards. The exemption from the customary publicity requirements suggests that such action may have taken place more frequently than the index of money wage rates and the statistics on individual wage rates indicate.

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[27] Werner Mansfeld, "Die deutsche Sozialpolitik," *Der Vierjahresplan,* III (1939), 15; see also Werner Mansfeld, "Der Lohnstop als Mittel der Kriegslohnpolitik," *Reichsarbeitsblatt,* XIX (1939), Pt. II, pp. 400 ff.

[28] *Wirtschaft und Statistik,* XXIII (1943), 57.

[29] See *Statistisches Jahrbuch für das Deutsche Reich,* LVII (1938), 339 ff.; for later years International Labour Office, *Year Book of Labour Statistics,* VII (1942), 121.

[30] *Wirtschaft und Statistik,* XVIII (1938), 159, and XIX (1939), 520.

[31] For a more detailed discussion, see pp. 343-344.

We mentioned before that, even in the absence of control, there was likely to be very little pressure on wage rates during the early period of Nazi rule because of the quite substantial unemployment. As soon as the labor supply situation changed in certain industries and shortages, particularly of skilled workers, developed, the authorities took special action to prevent the wage-rate increases that would have resulted from competition between employers for the available labor supply. In order to render such competitive bidding useless, the government, at a comparatively early date, limited the mobility of workers in special industries. These limitations will be discussed in the next section. By 1938, when shortages were becoming acute in many industries and competitive wage bidding threatened to become general,[36] the government was forced to pursue a more elaborate policy with regard to the hiring and firing of employees. In special cases it felt that it was desirable to take more drastic action and regulate wage rates directly.[37] By a decree of June 25, 1938,[38] the Trustees of Labor were authorized to fix not only minimum, but also maximum wages in industries designated by the Department of Labor. These minima and maxima were to become effective immediately even if this meant a change in Enterprise Rules or labor contracts which had not yet expired. A few months later the Department designated the building and metal industries as sectors in which the Trustees of Labor were to exercise their new powers.[39] In addition to the maximum and minimum wage provisions, the decree provided that prison terms and money fines could be imposed upon those who violated the instructions of the Trustees. It also reaffirmed the power of the Trustees to supervise conditions of work and take all measures necessary to prevent developments in wages and other working conditions "from making the rearmament of the country and the execution of the Four Year Plan more difficult." This was no further grant of power. The Trustees already enjoyed far-reaching authority, but it was evidently considered desirable to emphasize once again that the Trustees of Labor had the right to interfere at will with entrepreneurial "freedom." How effective the above precautions were it is difficult to say. There have been reports[40] that the demand for some skills was so urgent that employers used subterfuges both to increase the remuneration of employees and to circumvent the various legislative and administrative regulations; they promoted workers, granted housing and traveling allowances, paid the workers' taxes or social insurance premiums, established pension funds, etc.

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[32] Index numbers recalculated on the basis of figures published by the International Labor Office, *op. cit.*, p. 103.

[33] *Wirtschaft und Statistik*, XXIII (1943), 57.

[34] *Reichsgesetzblatt*, 1935, I, 1240.

[35] Sec. 3 of the Decree.

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[36] L. Daeschner, "Die Tarif-und Lohngestaltung 1938," *Wirtschaftsblatt für das Wirtschaftsgebiet Brandenburg* (1938), pp. 1714 f.

[37] "It cannot be denied that the increase in wage rates to attract workers was quite considerable in a number of cases" (Mansfeld, *op. cit.*, p. 402).

[38] *Reichsgesetzblatt,* 1938, I, 691.

[39] *Reichsarbeitsblatt,* XVIII (1938), Pt. I, pp. 291 and 313.

[40] René Livchen, "Wartime Developments in German Wage Policy," *International Labor Review,* XLVI (1942), 139; see also P. Waelbroeck and I. Bessling, "Some Aspects of German Social Policy under the National-Socialist Regime," *ibid.,* XLIII (1941), 144, and F. Schwiegk, "Die Verhinderung von Vertragsbrüchen," *Wirtschaftsblatt der Industrie- und Handelskammer zu Berlin,* XXXVII (1939), 138.

By the time war broke out, the Nazi "order" in the field of industrial relations was so well adapted to the exigencies of a war economy that relatively few changes had to be made. Those legislative steps which were taken were all in the direction of further concentration of power in the hands of the government. A decree of September 1, 1939,[41] authorized the Trustees of Labor to issue Industry Rules and regulations for Enterprise Rules and individual labor contracts without consulting the Committee of Experts. Since we have no information as to how significant these "consultations" were before, we have no way of estimating the importance of the change. The Trustees were also authorized to issue Industry Rules for individual enterprises, if necessary—a slight extension of the power to issue rules for groups of enterprises and for industries. More important, perhaps, was the War Economy Decree of September 4, 1939,[42] the first major legislative enactment designed to shift the German military economy into a war economy. Section 18 of this decree directed the Trustees to adjust wages, salaries, and all other working conditions to the situation created by the war. This was to be done in conformity with detailed orders to be issued by the Department of Labor. The Trustees were also authorized to use the Industry Rules to fix maxima for all wages, salaries, and other conditions of work. Before this, it will be recalled that the Trustees had power to fix maxima only for specific industries, and Industry Rules constituted minima. In an article published soon after the issuance of the decree,[43] Werner Mansfeld held that additional power had been conferred upon the Trustees. He underscored the fact that they had been given not only the authority but definite instructions to restore a certain relationship among different wage rates and among different industries. But he gives no hint of what was meant by this relationship. To an outsider it would seem that the new maximum provisions did little more than legalize existing practices. Most of the minima in the economy had by now become maxima, the only exceptions being those industries in which acute labor shortages had compelled entrepreneurs to bid up wages. There the Trustees of Labor could fix maxima even before 1939 upon authorization by the Department of Labor. One special feature of the War Economy Decree should be mentioned even though it turned out to be only temporary. It was a provision abolishing special pay for overtime as well as for work on Sundays, holidays, and at night. The fact that this special pay was soon restored suggests that the abolition was a serious blow to morale and possibly to the productivity of the worker. For many workers these supplementary payments undoubtedly amounted to a considerable sum. Considerations of morale may also have been responsible for the rather surprising decree of October 12, 1939.[44] It will be recalled that the War Economy Decree, issued a few weeks earlier, had expressly ordered the Trustees of Labor to issue maximum regulations for wages and other working conditions. The decree of October 12 seemingly superimposed upon the earlier decree a wage-stop which made any increase or curtailment of wages and salaries by entrepreneurs illegal. The decree itself and subsequent administrative rules[45] were carefully drawn to include everything that might possibly constitute employees' remuneration: wages, salaries, piece rates, rates for homework, special bonuses, pay for apprentices, Christmas gifts, etc. But, surprisingly enough, there was no change in the authority of the Trustees of Labor. They continued to have power to increase and reduce wages and salaries as they saw fit. This was expressly confirmed in a special decree of April 23, 1941.[46] After the restoration of special pay, mentioned previously, and until the end of 1941 there were no really significant changes in wage conditions. Attention should be called to two steps taken during the time. The Trustees of Labor were authorized to fix minimum and maximum conditions of work without requiring permission from the Department of Labor. Special provisions were released to meet problems created by the influx of female workers into the economy. Unless special arrangements were made in Enterprise or Industry Rules, wage rates for women were to be fixed at an average of 80 per cent of rates for male workers in the same positions when they worked on a time basis; in piecework, they were "ordinarily" to receive the same rates as male workers.[47]

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[41] *Reichsgesetzblatt*, 1939, I, 1683.

[42] *Ibid.*, p. 1609.

[43] Werner Mansfeld, "Lohnpolitik im Kriege," *Monatshefte für N. S.-Sozialpolitik*, VI (1939), 383.

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[44] *Reichsgesetzblatt,* 1939, I, 2028.

[45] It was reported that, even during the first eighteen months of the wage-stop, various new administrative regulations had become necessary to cope with the many violations that were taking place to attract additional workers (Knolle, "Neue Anordnungen auf dem Gebiete der Lohngestaltung," *Reichsarbeitsblatt,* XXI, 1941, Pt. V, p. 237).

[46] *Reichsgesetzblatt,* 1941, I, 222.

If one had to summarize the official wage policy pursued during the nine-year period between 1933 and the end of 1941, it would be fair to say that money wage rates were frozen at the 1933 depression level, and that subsequent developments were designed to keep them there.[48]

The Distribution of Labor

The history of the organization of the labor market in pre-Nazi Germany to some extent parallels the history of the decline of competition. During the period which saw competition in the labor market rapidly on the wane, the government had taken steps to organize that market. Some of the larger cities had established municipal employment-exchange agencies long before the first World War, agencies which rendered free service to both employers and employees. After the first World War, the Federal government took over all these agencies and organized the employment-exchange system on a national basis. Employment offices served two main functions. Their social function was to render workers independent of expensive and sometimes unreliable private agencies, at a time when they were easy prey to any organization that dangled the prospects of employment before them. Their chief purpose, however, was to improve the organization of the labor market, to provide better facilities for the meeting of the supply and demand for labor. For the price mechanism alone, presupposing as it did complete information on the part of buyers and sellers of labor, had never functioned too satisfactorily. Government-run employment offices proved a boon to both employer and employee. To the employer they offered useful information on the labor supply situation.

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[47] *Wirtschaft und Statistik*, XXIII (1943), 57.

[48] See Livchen, *op. cit.*, pp. 136-152.

Workers were classified according to skill and employment desired, and from the hundreds and often thousands of unemployed workers, employers were free to choose those whom they considered most efficient. To the worker seeking employment they furnished, otherwise unavailable, information about job opportunities. After the passage of the Unemployment Insurance Law of 1927, which compelled the unemployed to report regularly to employment offices on pain of forfeiting the right to benefit payments, these offices became storehouses of information about the labor supply in their localities. By exchanging information with neighboring agencies they were able to comb wide areas for workers and jobs. But throughout the pre-Nazi era the employment offices remained agencies dedicated only to the pooling or disseminating of information. They could exercise no coercive power in the hiring and firing of workers. In fact, entrepreneurs did not have to use the public employment offices to obtain workers. They could, and often did, depend on personal knowledge, advertising, private nonprofit-making agencies, and agencies of their own. Workers, too, remained free to seek jobs wherever and however they wished and to accept those which they considered most advantageous.[49]

When the Nazis took over, they followed their customary procedure of making full use of the efficient administrative machinery they had inherited, but in their hands it became an entirely new instrument serving entirely different purposes. To the Employment Exchange System was assigned responsibility for militarizing the distribution of labor. The pre-Nazi labor market was abolished; the freedom of employers and employees in the market became part of the past; and a government system of labor allocation *(Arbeitseinsatz*—a new Nazi concept*)* was substituted. "Allocation of labor" was once described by Hitler as the "deliberate direction of German labor in accordance with the material needs of the economy."[50] The employment offices charged with this responsibility, ceased to be agencies concerned primarily with pooling information on labor supply and demand. They became, instead, the official allocators of labor, intrusted with placing each man where he could best serve the needs of the military economy. It was a gigantic task; and to insure its accomplishment, the authority of the employment offices to interfere with the hiring and firing of employees was gradually increased until eventually they had complete power over whether and where a man should be employed, and over the right of any man to change his position. As part of their task they had to take over the vocational guidance and training programs, for the allocation activities of tomorrow frequently depended upon the guidance of trainees today. This transition from a labor market to militarized labor allocation started early in the history of the Nazi regime and took several years to complete.

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[49] It should be mentioned, however, that the manner in which unemployment insurance functioned did somewhat curtail the freedom of the worker mentioned in the text. When an unemployed worker was offered a job for which he was qualified, he could refuse it only on the pain of losing his unemployment insurance benefits. To this extent, he was no longer entirely free to jockey for maximium advantages.

[50] Siebert, *op. cit.*, Einl. III, 11.

a. *The Institutions for the Distribution and Allocation of Labor.* The task of militarizing labor was assigned to the Reich Office for Employment Exchange and Unemployment Insurance (Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung), created by the Law of July 16, 1927.[51] That law did not materially change the employment exchange system developed by previous legislative measures, particularly the Law concerning Employment Exchange of July 22, 1922.[52] It did not give to the Reich Office a government monopoly of employment exchange activity; nonprofit-making exchange agencies, such as those run by unions or employers associations, continued to exist. Private profit-making agencies, however, were ordered to discontinue operations and were given three years—until the end of 1930—to straighten their affairs. The law of 1927 set down the organizational framework of the employment exchange system that the Nazis took over. It called for a three-level structure, the Reich Office on the national level, thirteen state offices on the regional level, and three hundred local offices in many individual cities. The Reich Office was an institution of public law, governed by a board consisting of representatives of employers, employees, and the government, and subject to the control of the Federal government.

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[51] *Reichsgesetzblatt,* 1927, I, 187; as amended on Oct. 12, 1929, July 26, 1930, and Dec. 1, 1930 (*ibid.,* 1929, I, 162, and 1930, I, 311 and 517).

[52] *Ibid.,* 1922, I, 657.

Although the Nazis did little to modify the organizational structure of the Employment Exchange System, in time they so completely altered the functions of the various offices as to leave nothing but the name they had in common to link them with their predecessors. The first step was taken with the introduction of the leadership principle. In this sector it meant that the authority to govern, which had been vested in the Board, was shifted to the President of the Reich Office and that employers' and employees' representation on the various administrative bodies of the Reich Office and their subsidiary agencies was abolished.[53] Legislation passed in the next five years gave the Reich Office complete jurisdiction over the supply of labor. A decree of August 10, 1934,[54] announced cryptically that the Reich Office alone was entitled to distribute or allocate labor and that it did not have to tolerate interference by any other private or public agency.[55] Two later legislative measures are much clearer. The decree of December 20, 1934,[56] abolished some of the most important of the nonprofit-making private employment agencies by consigning the placing and hiring of migrant agricultural workers to the Reich Office. A little less than one year later, the Law of November 5, 1935,[57] made the Reich Office sole agency for employment exchange, vocational guidance, and exchange of apprenticeships. The Office could, if it wished, license private agencies to render these services, on condition that it closely supervise them and issue instruction for their conduct.[58] These early measures gave to the Reich Office a monopoly of control over the labor supply, a condition in no way changed by the decrees of December 21, 1938,[59] and March 25, 1939,[60] which formally incorporated Reich, regional, and local employment exchange offices into the Reich Department of Labor.[61] The Nazis liked to concentrate power in as few hands as possible. This seems to have been the purpose of these two decrees, and possibly of a third one, issued a few months later, which gave to the local employment offices additional functions by making them executive, administrative agencies for the Trustees of Labor.[62] The tendency towards concentration of power found specific expression when, on March 21, 1942, a new General Commissioner for Labor Allocation (Generalbevollmächtigter für den Arbeitseinsatz) was appointed.[63] He was responsible to the Office for the Four Year Plan and not to the Department of Labor. But two divisions of the Department of Labor (one dealing with wages, the other with labor allocation) were at his disposal. The new Commissioner was granted broad powers[64] over wage policy, labor allocation, training programs, combing-out processes, and hiring of workers from foreign countries—powers, which were no greater than those previously enjoyed by the Department of Labor in the same areas. It would seem, therefore, that the widely advertised appointment was meant to dramatize the critical labor situation and to shift the administration to a new, and possibly more energetic, person.

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[53] *Ibid.*, 1933, I, 96, 123, 133, 170, 246, and 282. [54] *Ibid.*, 1934, I, 786.

[55] The official statement of the Department of Labor (see F. Syrup, "Die gesetzgeberischen Massnahmen der Reichsanstalt," *Reichsarbeitsblatt*, XIV, 1934, Pt. II, pp. 333 f.) does not provide any concrete information that might help in interpreting the decree.

[56] *Deutscher Reichsanzeiger*, 1934, No. 302; as amended by Decree of Dec. 30, 1935 (*Reichsarbeitsblatt*, XVI, 1936, Pt. I, p. 4). [57] *Reichsgesetzblatt*, 1935, I, 1281.

[58] The Reich Office was also made exchange agency for placing and hiring of workers to be employed outside the Reich (*ibid.*, 1935, I, 903; and *Reichsarbeitsblatt*, XVI, 1936, Pt. I, p. 15).

[59] *Reichsgesetzblatt*, 1939, I, 2. [60] *Ibid.*, 1939, I, 575.

[61] It is without any significance that the "old" Reich Office continued to exist (under a new name) as a special agency (in the form of an institution of public law) for the accumulation of the funds raised through unemployment insurance premiums.

One of the most important institutional changes for the militarization of labor was the introduction in February, 1935,[65] of the Employment Book *(Arbeitsbuch)*. This book played the same role as a draft registration certificate in a military conscription system. Just as every German of draft age was registered with the military authorities, who were minutely informed about him, who were to be notified of any change in his location and status, so every employable person in Germany who had completed his compulsory public school education—usually by the age of fourteen—was registered with an employment office which kept a complete file on him and his movements. According to the law which introduced the book (Section 1), its purpose was "to bring about an adequate distribution of labor in the German economy." Mr. Syrup, President of the Reich Office, was much more candid about the purpose of this piece of legislation so surprising in time of peace. "Once employment books for twenty million workers will have been issued," he declared, "the Reich Government will be in possession of reliable information of greatest significance for its decisions. Should we ever be drawn into a war, the employment books will be extremely important for the mobilization of manpower."[66]

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[62] *Soziale Praxis*, XLVIII (1939), 910.
[63] *Reichsgesetzblatt*, 1942, I, 179.
[64] *Reichsarbeitsblatt*, XXII (1942), Pt. I, p. 207.
[65] Law concerning the Introduction of an Employment Book of Feb. 26, 1935 *(Reichsgesetzblatt*, 1935 I, 311*)*, and many administrative rules; see also amendment of April 22, 1939 *(ibid.*, 1939, I, 824*)*.

The law originally provided for the issuance of books to wage and salary earners with a monthly income of less than 1,000 marks, and in this group there were certain exceptions. But a series of amendments gradually extended coverage until the decree of April, 1939,[67] compelled every employable man and woman in Germany, including entrepreneurs, homeworkers, apprentices, and dependent working for the head of family, to apply for an employment book.[68] Since, as one writer pointed out with slight exaggeration,[69] the employment book provided information about "the professional life of its owner, past, present and future," it was an ideal instrument for conscripting manpower.

Two copies of the employment book were issued to each employable person by the employment office in the district in which he lived. One was kept by its owner or, while he was employed, by his employer, and the other by his employment office. The book contained a complete life history of its owner, which meant detailed information on his education, professional training, skills, and previous jobs. All future jobs were to be entered in the book with detailed information concerning the type of work being done, the nature of the enterprise in which he was employed, the name of the employer, the dates at which employment began and terminated. Any other change in the personal or professional status of the book owner (change in residence, change in family, training in new skills) was also to be entered. If the worker was unemployed, entries were made by the employment office. Otherwise they were made by the employer who was required by law to demand the employment book as soon as a worker was hired. Employees were, of course, required to surrender them. Copies of all entries were to be forwarded to the employment office by the employer. When a worker became unemployed, the employer entered the fact in the employment book, and it was incumbent upon the employer to notify the employment office. Violators of these provisions faced severe penalties. Such regulations provided the employment offices with detailed information on all the employables in the country, their movements, their positions, their families, etc. Later, when the government extended its control over the movement of every worker, prescribing training, type of work, as well as the beginning and end of employment, these employment books were invaluable to the supervising and enforcement agencies. Parenthetically it should be added that in the relations between employer and employee, especially with regard to hiring, access to these industrial biographies of the working population gave the employer a distinct advantage over employees.

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[66] Friedrich Syrup, *Der Arbeitseinsatz und die Arbeitslosenhilfe in Deutschland* (Berlin, 1936), p. 117.

[67] See p. 194, n. 65.

[68] Wende, "Die Erweiterung der Arbeitsbuchpflicht," *Reichsarbeitsblatt,* 1939, Pt. II, 169, see also J. Richter, "Die Neue Verordnung über das Arbeitsbuch," *Monatshefte für N. S.-Sozialpolitik,* VI (1939), 233.

[69] O. Jache, "Das Arbeitsbuch," *Jahrbücher für Nationalökonomie und Statistik,* CXLIV (1936), 466.

b. *The Shift from Employment Exchange to Labor Allocation.* The specific measures adopted by the Nazi government to distribute labor are embodied in hundreds of laws and decrees. In their historical sequence, they are an excellent record of the gradual development of the Nazi military economy which made necessary the shift from employment exchange to compulsory labor allocation. The final upshot, the right of the government to commandeer labor whenever and wherever it pleased, is perhaps best understood as a counterpart of the regimentation of raw materials which was developed during the same years. Raw materials and labor are the two basic components of production. In the very early stages of military preparation there was little pressure for detailed control over either. But shortages appeared here and there rather soon. Here and there production had to be shifted from normal, peacetime products to war materials. Here and there the demand for expanding industries required the curtailment and contraction of industries considered less vital to the military economy. Here and there the traditional market mechanism had to be scrapped to insure rapid and efficient adjustment to the requirements of war preparation. Both labor and raw material control began with piecemeal, individual interferences which blossomed into total regimentation, with general provisions which eventually gave rise to the supervision and inspection of individual enterprises. In only one respect was raw-material control more fundamental. Decisions as to the character and quantity of items produced in the economy were made by the authorities allocating raw materials. A circular of December 5, 1938,[70] did authorize the employment offices to examine plans for building projects before allocating labor. But this was an exceptional case. Ordinarily employment offices lacked authority to influence production. Their task was primarily (1) the allocation of labor for tasks approved by the Supervisory Agencies and other government bodies, and (2) making sure that labor was being employed for these projects as efficiently as possible. Yet, the employment offices were not without influence upon the volume of production. The more workers made available by strict supervision of enterprises, by inspection and combing-out processes,[71] the greater was the flexibility of the Supervisory Agencies in deciding upon size and composition of the national product.

In the treatment that follows we shall avoid a purely historical presentation and, instead, consider the material topically.

1. *General Measures of Distribution and Allocation.* The general measures, it will be seen, usually set aside freedom of contract in the labor market, the freedom to make an employment contract as well as the freedom to terminate it. The former was accomplished by making the hiring of workers dependent upon a specific government permit or by ordering the hiring of individual workers; the latter, by making it impossible for both employers and employees to terminate an employment contract at will.

On May 15, 1934,[72] the Reich Office was given power to prohibit migration of employees to places or areas where heavy unemployment existed.[73] Violators were liable to money fines or prison terms. Only a few months later, an order specified[74] that men and women below twenty-five years of age could be hired as wage or salary earners only with the approval of the employment office. This limitation upon hiring of employees was made more general in March, 1938,[75] by ruling that the regional employment offices could make the hiring of employees (regardless of age) by individual entrepreneurs dependent upon the approval of the employment office. Behind these two orders was the desire to prevent the expansion of enterprises and industries considered unessential for military purposes. With the outbreak of war, government control over hiring became even more general. The Decree concerning the Limitation of Labor Turnover of September 1, 1939,[76] specified that private and public enterprises and administrative agencies of any kind as well as households were henceforth to be permitted to hire wage earners, salary earners, and apprentices only after approval of the employment office had been obtained. This ruling went so far as to apply to members of families who helped in the business of husband, wife, parents, grandparents, brother, or sister.

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[70] *Reichsarbeitsblatt,* XIX (1939), Pt. I, p. 74.

[71] See pp. 210-211.

[72] Law concerning Regulation of Labor Allocation (*Reichsgesetzblatt,* 1934, I, 381).

[73] See, for instance, Decree of May 17, 1934, concerning the City of Berlin (*Deutscher Reichsanzeiger,* 1934, No. 114).

[74] *Ibid.,* 1934, No. 202; see also *Reichsgesetzblatt,* 1939, I, 444.

Measures encouraging employment were of two types: those designed to facilitate the employment of older people and those making the hiring of such people mandatory. The first kind is illustrated by the ruling of August 28, 1934,[77] which provided that wage and salary earners below twenty-five years of age could be dismissed to facilitate the employment of older, unemployed persons (preferably fathers of families) when the desirable age composition of the labor force in a specific enterprise made such action necessary. The entrepreneur himself was to decide whether the age composition of his employees was in harmony with the public interest, but the Reich Office could overrule the entrepreneur and issue instructions to fire and hire. When necessary, a temporary subsidy was to be made available to entrepreneurs to facilitate the change. The second kind of measure[78] made it mandatory for entrepreneurs employing ten or more people to hire a certain percentage of salary earners over forty years of age. The employment offices were to determine how many persons of that category had to be hired, and to check up on enterprises regularly to see that the correct age composition was being maintained.

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[75] *Deutscher Reichsanzeiger*, 1938, No. 51.
[76] *Reichsgesetzblatt*, 1939, I, 1685.
[77] *Deutscher Reichsanzeiger*, 1934, No. 202.
[78] *Reichsarbeitsblatt*, 1936, Pt. I, p. 296.

2. *Compulsory Labor.* Four types of compulsory labor service should be distinguished: (a) the compulsory labor service, to which every German in the age groups 19-25 could be called for "work in the public interest"; (b) the emergency service, which was ordinarily of short duration and which was established to cope with sudden "catastrophies"; (c) compulsory labor, to which every employable German was subject—which meant that he could be conscripted for an indefinite period of time, to work anywhere in German industry; and, finally, (d) compulsory one-year service for women on farms, with which we shall deal later.[79] According to the Law concerning the Reich Labor Service of June 26, 1935,[80] all men and women, nineteen to twenty-five years of age (the exact number to be determined by the Reich Chancellor), were obliged to serve in compulsory labor for a period of time to be announced by the Reich Chancellor. This was viewed as a "service of honor" to the German nation. Men and women called up under the decree were to be employed in work essential to the public interest, in conservation, land reclamation, reforestation, and road building, for example, but they could also be used for any other type of work assigned by the government. It was not at all unusual for them to be employed as helpers on farms during the harvesting period, in emergency work caused by floods, fires, snowstorms, etc., and "in the service of national defense."[81] Neither the Department of Labor, the Reich Office, nor the employment offices had anything to do with the compulsory labor service. It was run by the Department of Interior and was considered a necessary, preliminary training for the military service to follow. According to the law, the purpose of the labor service was to educate the German youth in the principles of National Socialism, train them in the spirit of a national community, and inculcate them with a love of work, particularly manual labor.

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[79] See p. 204.

[80] *Reichsgesetzblatt,* 1935, I, 769; as amended Sept. 9, 1939 (*ibid.,* 1939, I, 1747); see also *Reichsarbeitsblatt,* XIX (1939), Pt. I, pp. 418 and 450.

[81] For details, see Reichsleitung des Arbeitsdienstes, *Spaten und Ähre* (Heidelberg, 1938), and *Jahrbuch des Reichsarbeitsdienstes 1940* (Berlin, 1939).

Another form of compulsory labor, the "Emergency Service," was created by a decree of October 15, 1938.[82] Later the decree of September 15, 1939,[83] specified that all persons, male and female, between fifteen and seventy years of age, were liable for this service. Admittedly designed to meet "natural catastrophes" like floods, this type of compulsory labor was undoubtedly framed to meet all kinds of war emergencies, not the least of which were those which might result from air raids. It was administered not by the Department of Labor and the Reich Office, but by police departments and the municipal authorities, who had to report to the employment offices only when it was necessary to notify them that a particular individual was being called to "emergency service" of long duration.

More extreme and important than either of these types of labor service was the general labor conscription patterned closely after compulsory military service. It was this power to conscript labor introduced by a special decree of the Office of the Four Year Plan[84] which finally gave the employment offices full control over the entire manpower of the nation. Before this, it will be recalled, the jurisdiction of the employment offices extended only over the unemployed and particular groups of workers, such as those in agriculture, the metal trades, and the building trades. Now every employable man and woman was subject to their orders. The decree, as enlarged and amended on February 13, 1939,[85] authorized the employment offices to conscript any resident in Germany for labor which the Office of the Four Year Plan considered too important to postpone. Since the decree in no way limited the power of the authorities, and since another ruling[86] expressly stated that not only whole enterprises, but parts of enterprises, such as a single building project of a building firm, could be declared eligible for labor conscription under the decree, there was nothing to prevent the government from conscripting labor for any purpose whatever.[87] The decree also made clear that workers could be conscripted for an indefinite period of time, that they could be employed anywhere the employment office assigned them—regardless of previous residence, and even if it meant separation from the family—that they could be taken away from permanent positions, and that they could be used for any kind of work, regardless of their skill, training, and experience.[88] Thus, though war had not yet been declared, the workers had already become "soldiers of work" in every sense of the term. The free labor market had been abolished, free collective labor contracts had become impossible, the freedom to choose a place of residence, a trade, or a profession had disappeared, and the right to work had become the duty to work.

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[82] *Reichsgesetzblatt*, 1938, I, 1441, and 1939, I, 1204.

[83] *International Labor Review*, XLI (1940), 394.

[84] Decree to Secure Manpower for Purposes of Special National Significance (Verordnung zur Sicherstellung des Kräftebedarfs für Aufgaben von besonderer staatspolitischer Bedeutung) of June 22, 1938 *(Reichsgesetzblatt*, 1938, I, 652*)*.

[85] *Ibid.*, 1939, I, 206.

[86] *Reichsarbeitsblatt*, 1939, Pt. I, p. 236.

[87] For details on the technique of conscription, see *International Labor Review*, XLI (1940), 391-393.

In view of the broad powers which the government enjoyed, particularly on the basis of the manpower decree just described, it is difficult to explain why a new decree for the same purpose was found necessary in January, 1943.[89] All unemployed men, sixteen to sixty-five years of age, and all unemployed women, seventeen to forty-five years—except for groups which were specifically exempted—had to register with the employment offices which were to find out who among these men and women were suitable for work "for the defense of the country." No doubt the increasing shortages in manpower and the specific circumstances at the time the decree was released—after the second winter battle on the Russian front—made it necessary to emphasize and dramatize the situation by issuing a new decree although the government had possessed before all the authority vested in it by the new measure.[90]

3. *Limitation of Labor Turnover.* In order to reduce labor turnover, the government took steps to tie workers to their jobs. This was particularly true after the outbreak of war. The first such action was the decree of November 27, 1936,[91] promulgated

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[88] The Nazi government apparently made much use of its compulsory labor authority. According to an official statement, about 2.3 million persons (men and women) were conscripted for labor during the first three years of the decree, until about the middle of 1941. These 2.3 million persons were not kept in employment for the whole period. Six hundred and eleven thousand, 174,000 of whom were women, were employed under the decree in June, 1941, and 627,000 (197,000 women) in January, 1942 (*Reichsarbeitsblatt*, XXI, 1941, Pt. V, pp. 488-492, and XXII, 1942, Pt. V, p. 284).

[89] *Reichsgesetzblatt*, 1943, I, 67.

[90] For further administrative details, see *Reichsarbeitsblatt*, XXIII (1943), Pt. I, pp. 83 and 107, and Pt. V, p. 46.

[91] *Deutscher Reichsanzeiger*, 1936, No. 278.

in connection with a growing shortage of skilled metal workers, which will be discussed later.[92] The next important step, which was not taken until the decree of March 10, 1939,[93] specified that employers as well as wage and salary earners in six important industries (agriculture, forestry, mining—except bituminous coal mining—chemicals, building materials, iron and other metals) may give notice only after being advised that the employment office has approved thereof.[94] With the onset of war, the decree concerning the Limitation of Labor Turnover was issued,[95] making the earlier limitations on the right to terminate employment applicable to the entire economy. The employment offices were to be consulted before employment of any kind was terminated. When these decrees are examined, one is impressed with the minute details that are the concern of many of them. A ruling of October 27, 1939,[96] for example, which applied the turnover decree to domestic service, carefully explained when and under what conditions a household was entitled to a servant, when and under what conditions a domestic could be hired or fired. All the foregoing measures were concerned with holding workers to their jobs. In addition, mention should be made of a decree which had a contrary purpose, to make it easier to dismiss workers. This decree of September 16, 1939,[97] gave the Trustees of Labor the power to shorten the dismissal-notice period prescribed in existing law, a power invoked when the temporary closing of a business became necessary.

4. *Agricultural Labor.* Agricultural labor was always a special problem to the Nazis. In the early days of Nazi rule, when large reserves of industrial labor were still unemployed, the agricultural labor supply was far from excessive, in spite of the fact that the depression had slowed down the movement of workers from agricultural to industrial occupations. Recovery, it was realized, was bound to speed up this movement again and create

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[92] See p. 205.

[93] *Reichsgesetzblatt*, 1939, I, 444.

[94] A provision stating that, when employer and employee agreed to the termination of employment, the consent of the employment office was not required, was frequently invoked to circumvent the purpose of the decree. In the spring of 1942 this loophole was plugged for industries vital to the war effort. "Henceforth, it is exclusively up to the employment office to terminate employment contracts in war industries, a regulation that is being enforced by sharply increased penalties" (*Der Deutsche Volkswirt*, XVI, 1942, 1153).

[95] See p. 198; see also *Reichsarbeitsblatt*, XX (1940), Pt. I, pp. 57 and 83.

[96] *Ibid.*, XIX (1939), Pt. I, p. 579.

[97] *Reichsgesetzblatt*, 1939, I, 1869; see also *ibid.*, 1940, I, 544 and 1190.

dangerous shortages of agricultural workers. In the pre-Nazi period the situation was often eased by the seasonal migration of agricultural workers from abroad, but now, for political reasons, they were no longer welcome.[98] If one of the clearest and earliest of Nazi objectives—increased agricultural production—was not to be jeopardized, a shortage of agricultural workers had to be avoided. By a law of May 15, 1934,[99] the Reich Office was given authority to decree that persons employed in agriculture, either on the date the decree was issued or for at least fifty-two weeks during the three-year period prior to that date, could not be hired for nonagricultural work without permission from the Reich Office. Only a few days later, the Reich Office made use of this authority.[100] This meant that agricultural workers were virtually tied to the soil. Less than a year later[101] the Reich Office was given power to decree that persons then employed in nonagricultural pursuits who had worked in agriculture any time in the past were to be dismissed by their present employers. In accordance with this power, the Reich Office issued the decree of March 29, 1935,[102] which forced certain workers back to the farms. Within the next eighteen months, however, the labor situation in the entire economy changed, industry began to feel the pinch of shortages, and both the decree of May 17, 1934, and the decree of March 29, 1935, just mentioned, were repealed on November 27, 1936.[103] But the effort to relieve the persistent shortage of agricultural workers continued unabated.[104] There were subsidies for housing agricultural workers, subsidies to help furnish their homes, marriage loans, educational and organizational schemes,[105] to say nothing of the coercive measures such as the stopping of relief payments to unemployed if the employment office felt that they could make a living for their families in agricultural work and they refused to accept such work.[106] The most important of these measures, the one that interfered most with individual freedom, was the decree of February 15, 1938, conscripting all women for one year's work on farms.[107] The decree, as amended on December 23, 1938,[108] provided that henceforth unmarried women below twenty-five years of age who had not been employed before, could not obtain employment as wage or salary earners from private enterprises or public bodies unless they could prove through their employment book that they had previously spent at least one year in agricultural or domestic work.[109] Later announcements by the Department of Labor indicate clearly that this compulsory labor service for women was very unpopular, and there are indications of frequent attempts to circumvent it.[110]

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[98] It is well known that increasing shortages of labor after the outbreak of war necessitated a change in attitude and that millions of foreign workers were drawn into Germany.

[99] Law to Regulate the Allocation of Labor (Gesetz zur Regelung des Arbeitseinsatzes) of May 15, 1934 *(Reichsgesetzblatt,* 1934, I, 381*)*.

[100] Decree of May 17, 1934 *(Deutscher Reichsanzeiger,* 1934, No. 114*)*.

[101] Law concerning Allocation of Labor to Agriculture of Feb. 26, 1935 (*Reichsgesetzblatt,* 1935, I, 310).

[102] *Reichsarbeitsblatt,* XV (1935), Pt. I, p. 120.

[103] *Ibid.,* XVI (1936), Pt. I, p. 312.

[104] H. Weiss, "Die Zuspitzung der Landarbeitsfrage," *Reichsarbeitsblatt,* XIX (1939), Pt. II, p. 325; see also order of Dec. 22, 1936 *(ibid.,* XVII, 1937, Pt. I, p. 13*)* which instructed employers to retain the employment book of agricultural workers who left their position "in an illegal premature manner." This meant that those workers could not find employment anywhere else.

[105] For various detailed laws and decrees, see *Deutscher Reichsanzeiger,* 1937, No. 67; *Reichsgesetzblatt,* 1938, I, 835; and *Soziale Praxis,* XLIX (1940), 689 and 698. See also W.

5. *Skilled Labor.* One of the most crucial and vexing problems confronting the Nazis was a growing shortage of skilled workers. In spite of the large reservoir of unemployed when they took over, the supply of skilled workers was exhausted much more rapidly than the general supply. The serious situation which developed was in part a consequence of the depression. Years of unemployment robbed many of skills which they once had. Others were compelled to accept jobs in industries and trades in which little or no use was made of their old skills. At the same time opportunities for apprentices and trainees of one kind or another dwindled, and as a result the usual crop of young people acquiring skills declined. The government could not afford to neglect this situation. The success of the military effort

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Stothfang, "Zusätzliche Massnahmen zur Versorgung der Landwirtschaft mit Arbeitskräften," *Monatshefte für N. S.-Sozialpolitik*, V (1938), 55.

[106] *Reichsarbeitsblatt*, XVIII (1938), Pt. I, p. 190.

[107] *Deutscher Reichsanzeiger*, 1938, No. 43 (for later developments, see *Reichsarbeitsblatt*, XIX, 1939, Pt. I, p. 553, and XX, 1940, Pt. I, p. 184).

[108] *Deutscher Reichsanzeiger*, 1938, No. 305.

[109] Labor service (see p. 199) and certain other specified employments could be counted as substitutes for the compulsory service in agriculture and domestic work.

[110] See, for instance, an order of the Department of Labor of Nov. 11, 1940 *(Reichsarbeitsblatt*, XX, 1940, Pt. I, p. 564), in which the Department announced that women taking courses in shorthand and typewriting during the compulsory year on farms would not be considered to have completed compulsory service and would not receive the necessary confirmation in their employment books.

might eventually depend on it. Two types of measures were therefore adopted, those designed to meet the problem in particular industries, and those which attacked the problem on a broader front. We shall examine both types of government activity.

The shortage of skilled labor first made itself felt in the metal industry. After the decree of December 29, 1934,[111] skilled metal workers could be hired only after a written permission was obtained from the employment office. Late in 1936,[112] this rule was extended to apply to all metal workers regardless of skill—a symptom of the seriousness of the labor shortage in certain areas as early as the beginning of the Four Year Plan. Similar problems developed and similar measures were taken in the building industry in 1936 and after.[113] To supplement the early measures in both industries, two other decrees were issued, both on November 7, 1936.[114] The first, a decree of the Office of the Four Year Plan, prohibited cipher advertisements in newspapers and magazines for metal and building-trade workers.[115] The second instructed industrial entrepreneurs to notify their employment office whenever they employed workers for more than two weeks in occupations for which they had not been trained.[116] The employment office, in consultation with the employer and employee concerned, was to attempt to locate another employment opportunity either in the same enterprise or somewhere else, which would make use of the kind of training the employee had. Despite all these measures and others, some of which we shall mention below, the labor shortage in these two industries apparently remained acute, and judging from the powers conferred upon the Trustees of Labor in 1938[117] there must have been "illegal" increases in wages in this area. After the outbreak of war the government went so far as to close less vital enterprises in order to make their employees available to other sectors of the economy.[118]

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[111] *Reichsarbeitsblatt*, XV (1935), Pt. I, p. 12.

[112] Decree of Nov. 27, 1936 (*Deutscher Reichsanzeiger*, 1936, No. 278); see also *Deutscher Reichsanzeiger* 1936, No. 262, and 1937, No. 35.

[113] *Reichsarbeitsblatt*, XVI (1936), Pt. I, p. 299, and XVII (1937), Pt. I, p. 248; and *Deutscher Reichsanzeiger*, 1938, No. 124.

[114] *Reichsarbeitsblatt*, XVI (1936), Pt. I, p. 204, and XVII (1937), Pt. I, p. 175.

[115] *Ibid.*, XVI (1936), Pt. I, p. 297. [116] *Ibid.*, p. 294. [117] See p. 187.

[118] See, particularly, Decree of March 21, 1940 (*Reichsgesetzblatt*, 1940, I, 544).

Besides these measures for individual industries, note should be taken of a more general program to relieve the shortage of skilled workers. It fell into three parts: (a) the attempts to shift workers from their present jobs to occupations for which they were originally trained, (b) the retraining program, and (c) vocational guidance for young people about to enter practical work or training. In connection with the first part of the program we have already called attention to the following: the regulations concentrating the hiring of all wage and salary earners in the hands of the employment offices, which made it possible to allocate workers according to their training and experience; the decrees which made such redistribution obligatory for metal workers and workers in the building industry. After the outbreak of war, special commissions were appointed to inspect enterprises with an eye to determining whether any of their workers were inappropriately employed.[119] As a result, 480,000 employees were transferred in 1940 to positions in which they could better serve the military purposes of the Reich. The source of this information reveals that this was achieved "without closing down businesses completely." The emphasis should be on "completely," for there is no doubt that such a large number of workers could not have been made available without closing some of the less vital industrial units.

The retraining and vocational guidance programs were pursued no less vigorously.[120] Originally supervised and regulated by the entrepreneurial organizations in industry, commerce, and handicraft, these programs from their very inception were supported by the youth groups of the Nazi party.[121] Their important legislative history begins with the decree of November 7, 1936.[122] Issued by the Office of the Four Year Plan, it called upon all private and public enterprises in the iron and metal industry and all enterprises with more than ten employees in the building industry to employ a certain number of apprentices. The exact number was to be determined for each enterprise by the Reich Office on the basis of reports concerning the composition of its labor force, to be filed by the enterprise.[123] Entrepreneurs who, for personal or other reasons, were unable to employ apprentices were compelled to make an appropriate payment to be used by the Reich Office for apprentice training. In the autumn of 1938 the duration of apprenticeship in all industries was fixed at three years. Early in 1939 the entire training and retraining program was shifted to a Central Office for the Additional Training of Skilled Workers, which was appointed by the Department of Economics with the consent of the Department of Labor.[124] This Central Office was to plan and unify all programs for additional training and to issue orders to entrepreneurs in industry and commerce concerning the training and retraining of personnel. With the outbreak of war the pressure on the supply of skilled labor increased. Decree after decree issued by the Department of Labor testifies to the growing concern of the government authorities. Their efforts to cope with the problem were many and detailed.[125] In 1941, for example, vocational guidance and apprentice training were run on the basis of an elaborate "trainee plan" *(Nachwuchsplan)*, with which the Department of Labor had been experimenting ever since 1938.[126] The plan made provision for the distribution of all juveniles among the different industries according to their needs. Although it is said that the scheme was merely a suggestion, and that apprentices could not be forced into certain industries or prevented from going into others, there is little doubt that the "influence" exerted upon juveniles, as they left school, was far from gentle.

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[119] For further details about these commissions, see pp. 210-211.

[120] The problems of training and vocational guidance were studied in great detail, and there is an abundant literature on the subject; see, for example, Hans Heinrich Bischoff, "Zum Problem der Nachwuchslenkung," *Vierteljahrshefte zur Wirtschaftsforschung,* XIII (1938-39), 185 ff.

[121] See, for example, *Reichsarbeitsblatt,* XX (1940), Pt. V, p. 69.

[122] *Ibid.,* XVI (1936), Pt. I, p. 292.

In spite of all kinds of coercion, in spite of the conscription of manpower, the problem of allocating the available skilled workers as efficiently as possible continued to meet obstacles, and shortages continued to plague the Reich. Some of the decrees tell their own story of the difficulties encountered. Consider, for example, the decree of September 28, 1939, which, significantly, was not issued by the Department of Labor, but by the Chairman of the Ministerial Council for the Defense of the Reich.[127] After authorizing the Department of Labor to request that entrepreneurs hire workers with the object of retraining them, and after ordering that retraining of unskilled workers and women be started immediately and energetically, this decree went on to assert that entrepreneurs who hoarded skilled workers in spite of a lack of raw material and curtailment in production were guilty of sabotage and would be punished accordingly; and entrepreneurs who did not limit their requests for skilled workers to the very minimum—quantitively and qualitatively—were declared guilty of a punishable violation of the defense interests of the Reich.

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[123] For further details, see Helmut Vollweiler, "The Mobilization of Labor Reserves in Germany: II," *International Labor Review*, XXXVIII (1938), 595-596.

[124] Decree of Jan. 14, 1939 (*Deutscher Reichsanzeiger*, 1939, No. 13).

[125] See, in particular, the Circular concerning Vocational Guidance of the Department of Labor of Sept. 25, 1939 (*Reichsarbeitsblatt*, XIX, 1939, Pt. I, p. 468), and Decree concerning the Training of Skilled Workers of Dec. 15, 1939 (*Reichsgesetzblatt*, 1939, Pt. I, p. 2425).

[126] Ph. Beisiegel, "Aufgaben und Leistungen der Arbeitseinsatzverwaltung," *Reichsarbeitsblatt*, XXI (1941), Pt. V, p. 491, and Walter Stets, "Die Lenkung des männlichen Berufsnachwuchses 1941 and 1942," *ibid.*, p. 492. See also "Juvenile Employment in Germany," *International Labor Review*, XLV (1942), 512 ff.

6. *Increasing the Labor Force under Full Employment.* By 1938 the German economy had reached full employment, but the demand for workers by an economy preparing for war was insatiable. To meet the continual shortage of manpower, the government pursued policies designed to get old people back to work,[128] to increase the employment of women, and to force young people into jobs at an earlier age than they otherwise would have become employed. Because young people were urgently needed, especially those able to acquire skills, there was a concerted effort to get them into employment almost immediately upon completion of their compulsory education. Within two weeks after leaving school, according to a decree of March 1, 1938,[129] boys and girls were to register with the employment office of their district. Detailed instructions concerning the work of children and juveniles were embodied in the special law of

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[127] *Ministerialblatt des Innenministeriums*, Berlin, 1939, ed. A, No. 43.

[128] See a circular letter of the Department of Labor of March 10, 1941 (*International Labor Review*, XLIV, 1941, 80), which announced that "the engagement of salaried employees is not subject to an age limit" and that "retired employees who have not reached the age of seventy are bound to accept any employment for which their former duties or their occupational training may have fitted them. . . . They must register with the competent authorities." In a decree of March 20, 1941, the age limit for employment in public service was raised from sixty-five to sixty-eight; this limit could be exceeded in "exceptional cases" if the work done by the person concerned was efficient and he was in good health (*ibid.*, p. 81).

[129] *Reichsarbeitsblatt*, XVIII (1938), Pt. I, p. 69, and XIX (1939), Pt. I, p. 74.

April 30, 1938.[130] Child labor was defined as the employment of boys and girls below fourteen years of age. There was no limitation upon it in agriculture and domestic work, where it flourished. In all other occupations a special license from the factory inspector was required in order to employ children over ten years of age. The maximum working hours for those below sixteen years of age were fixed at 8 hours daily and 48 hours weekly; those between sixteen to eighteen years of age could be employed up to 10 hours daily and 54 hours weekly. These provisions were relaxed slightly by the decree of September 11, 1939.[131] With the outbreak of war, young people were practically conscripted for work. Children, ten to sixteen years of age, could be ordered to perform "light work" by officials of the Nazi party.[132] Boy and girl high-school students over sixteen years of age were compelled to work during their vacation period, the boys on the farms, the girls as domestics.[133]

The decision of the Nazis to employ women as widely as possible marked a reversal of policy. In the early years of their regime every effort was made to remove women from jobs that could be filled by men—allegedly in order to restore women to their "proper" role as wives and mothers. The Nazis continued to feature this attitude as a matter of ideology, but under the impact of necessity passed special legislation making work compulsory for certain classes of women.[134] As shortages of manpower became more acute, the reliance upon women workers increased.[135] But the government proceeded carefully, releasing detailed orders specifying when and where women were to be substituted for men. It did not, for example, draw upon married women in the lower age groups.[136] With the outbreak of war even these cautions were relaxed,[137] and the decree of May 15,

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[130] *Reichsgesetzblatt,* 1938, I, 437.

[131] *Reichsarbeitsblatt,* XIX (1939), Pt. III, p. 293.

[132] *Reichsgesetzblatt,* 1939, I, 1867.

[133] For further developments during the war, see *International Labor Review,* XLV (1942), 337-339.

[134] See p. 204.

[135] See, for instance, circulars of Oct. 5, 1938, and Sept. 29, 1939 *(Reichsarbeitsblatt,* XIX, 1939, Pt. I, p. 502*)*.

[136] For a detailed analysis of the Nazi attitude and policy concerning female workers, see "The Employment of Women in Germany under the National Socialist Regime," *International Labor Review,* XLIV (1941), 617 ff., and XLV (1942), 286 ff.

[137] The number of female workers increased by about one million in the first two years of the war *(Reichsarbeitsblatt,* XXI, 1941, Pt. V, pp. 488-492*)*.

1940,[138] clearly states that an emphatic attempt was to be made to replace male by female workers. Subsequent decrees were all designed to implement this policy as forcefully as possible.[139]

Neither child labor, nor the increased employment of women, nor the greater dependence on older workers guaranteed a working force large enough to meet the requirements of Germany's total effort. Every single worker had to be used as efficiently as possible, and the government was determined to take whatever steps might be necessary to increase the effectiveness of the existing labor force. In this connection a good deal of attention was paid to combing out enterprises and to rationalizing allocation of employees within them. It was not at all unusual for the government to transfer workers from one plant to another, either because a particular plant had been closed in order to release its labor force for more vital purposes, or because a careful reorganization had led to a saving of labor. To tap these hidden reserves of labor, the government had to provide for the investigation and inspection of individual enterprises.[140] In a circular letter of January 25, 1940, the Department of Labor instructed the local employment offices to investigate carefully whether the request of an entrepreneur for additional workers was warranted and to determine whether these workers might not be obtained by the applicant through internal changes in organization and management.[141] In other words, the employment offices were made responsible for determining whether the entrepreneur was doing all in his power to economize labor, to train workers, to replace skilled workers by semiskilled workers, and to replace men by women.[142] Only a few months later the circular letter of May 16, 1940,[143] expressed the dissatisfaction of the Department of Labor with the accomplishment of the employment offices, and ordered the leaders of the employment offices and their chief assistants to obtain special training with regard to their tasks as allocators of labor. The same circular deprived the employment offices of full responsibility for the combing out and rationalization of industrial enterprises by assigning those tasks to special commissions. Enterprises with two hundred or less employees were to be inspected by commissions in charge of an official of the local employment office. Larger enterprises were to be investigated by a commission headed by an official of a regional employment office. The very largest enterprises, and enterprises operating under special training conditions, were to be examined by commissions appointed by the Reich Office. These commissions were to ascertain whether the composition of the labor force was adequate and whether workers could be saved through improvements in organization. The Department emphasized that enterprises which employed a relatively large percentage of skilled workers were to be investigated with particular care and thoroughness. If, in the course of the combing-out efforts, skilled workers were made available, they could be allocated only to enterprises which had been investigated and certified to need additional skilled workers.[144] Special provisions for dealing with employees who became available because of the deliberate closing of businesses[145] were published in the decree of March 21, 1940.[146]

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[138] *Ibid.*, XX (1940), Pt. I, p. 284.

[139] For a detailed account of the developments during the war, see *International Labor Review*, XLIV (1941), 81-82, 213-215, 617 ff., and XLV (1942), 286 ff.; see also Scharlau, "Der Arbeitseinsatz der Frauen im Kriege," *Reichsarbeitsblatt*, XXI (1941), Pt. V, pp. 85 ff.

[140] The other attempts made to increase the labor force, such as the employment of war prisoners, the drafting of labor from occupied countries, the closing of small businesses and handicraft enterprises, and the elimination of overcrowding in retail trade and of peddlers and itinerant salesmen, are outside the scope of this study.

[141] *Reichsarbeitsblatt*, XX (1940), Pt. I, p. 284.

[142] For a detailed discussion of the new policy, see H. Hildebrandt, "Betriebsnaher Arbeitseinsatz," *ibid.*, Pt. V, p. 55.

[143] *Ibid.*, Pt. I, p. 284.

The work of the employment offices as well as the special commissions was facilitated by the establishment of a register of all enterprises. Filed with the employment office and supplied with the very latest information, this register was a veritable encyclopaedia of information on every enterprise, an extremely valuable addition to the manpower register made available to the employment offices by the employment books.

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[144] For a detailed discussion of these investigations, see H. Hildebrandt, "Ausbau der Arbeitseinsatzmassnahmen für die Rüstungswirtschaft," *Reichsarbeitsblatt*, XX (1940), Pt. V, p. 273.

[145] As we learn from the 1938 Annual Report of the Reich Office *(Reichsarbeitsblatt*, XIX, 1939, Beilage 3, p. 26*)*, there existed, at the Reich Office, a Reich Employment Exchange System, obviously to transfer workers from one district to another; this was done sometimes with individual workers, sometimes with groups of workers who were needed for the building industry. The Reich Exchange Office was apparently helped in its work by Regional Exchange Offices established at the Regional Employment Offices. For further details about the technique of the Reich Employment Exchange System, see the Annual Report just mentioned.

[146] *Reichsgesetzblatt*, 1940, I, 544.

The social consequences of Nazi labor legislation fall outside the scope of this study. We shall, however, devote some space to the legislation concerning hours of work, vacations, and unemployment relief, insofar as it was designed to increase the supply of labor.

Legislative action to lengthen the working day dates back to the decree of July 26, 1934. Although, in principle, the decree maintained the pre-Nazi legislation concerning the eight-hour working day, in practice, it made easier its extension. Not only did it abolish premium pay for certain types of overtime work,[147] but it gave more latitude to employers, Trustees of Labor, factory inspectors, and other government authorities in deciding when and under what conditions the working day could be extended. As a result, hours of work were increased in many areas. In fact, the decree made for so much flexibility that no further legislation was required for nearly four years, in spite of the growing pressure on the labor market in the interval.[148] A new law passed on April 30, 1938,[149] ostensibly limited the "regular working day" for workers over eighteen years of age to eight hours on weekdays. But the same law effectively nullified that provision by giving to the Trustees of Labor and the factory inspectors the authority to extend the working day at will up to and beyond ten hours a day (except in the case of women who were limited to working ten hours daily and fifty-six hours weekly). Scattered official statements suggest that this authority was widely used, and that long hours—11, 11½, 12, 13, and even 16—were sometimes worked, and there is reason to believe that this was sometimes done even before it was officially sanctioned by the law of 1938.[150]

With the outbreak of war, all the legal provisions concerning hours of work for male workers over eighteen years of age, including the new law of April, 1938, were canceled "until further notice" by a decree released on the very day the war broke out.[151] A few days later, the often-quoted War Economy Decree of September 4, 1939,[152] gave to the Department of Labor explicit power to issue orders concerning hours of work which countermanded existing legal provisions. It seems, however, that the cancellation of maximum provisions led to abuses and tended to undermine the physical fitness of workers. A decree of December 12, 1939,[153] therefore, rescinded the two earlier decrees and, on the whole, restored the regulations established on April 30, 1938. A similar development took place with regard to vacations. All existing provisions and contractual obligations affecting vacations were canceled on the day war broke out,[154] only to be restored by decree on November 17, 1939, effective January 15, 1940.[155]

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[147] Waelbroeck and Bessling, *op. cit.*, pp. 146-148.

[148] *Ibid.*

[149] *Reichsgesetzblatt*, 1938, I, 447.

[150] See F. Seldte, *op. cit.*, p. 20, and *International Labor Review*, XXXIX (1939), 369-370. Since we could not find any further information in German publications, we want to quote an analysis by C. W. Guillebaud (*The Social Policy of Nazi Germany*, Cambridge, 1941, pp. 72-73), which is based partly on personal investigation: "In the first eight months of 1939, when the new Decree of April, 1938, was in force, the ever-increasing shortage of skilled labor, and the intensification of the rearmament drive, led to quick general adoption of the ten-hour working day over a large part of the industry. In the iron and steel, coal-mining and building industries, it was not uncommon for 12 to 14 hours to be worked daily, and the skilled men and foremen often worked still longer hours, as they had to be spread over shorter shifts of the less skilled workers."

The substitution of unemployment relief for unemployment insurance by the decree of September 5, 1939,[156] concerns us here only because of a provision connected with labor supply and allocation. In addition to being certified as involuntarily unemployed and to passing the means test, the worker, to get relief, had to be willing to undergo a course of retraining. This rounded out the broad powers granted to the authorities over labor, enabling them to get at the few remaining workers who otherwise might have managed somehow to escape the attention of the government.

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[151] *Reichsgesetzblatt*, 1939, I, 1683.

[152] *Ibid.*, 1939, I, 1609.

[153] *Ibid.*, 1939, I, 2403; see also *Reichsarbeitsblatt*, XIX (1939), Pt. III, p. 380, and XX (1940), Pt. I, p. 41, and Pt. III, p. 56.

[154] *Reichsgesetzblatt*, 1939, I, 1609.

[155] *Reichsarbeitsblatt*, XIX (1939), Pt. I, p. 545, and XX (1940), Pt. I, pp. 78 and 256.

[156] *Reichsgesetzblatt*, 1939, I, 1674; see also *Reichsarbeitsblatt*, XIX (1939), Pt. I, p. 432, and XX (1940), Pt. V, p. 93. For a more detailed discussion, see W. Stothfang, "Wehrwirtschaftlicher Arbeitseinsatz," *Monatshefte für N. S.-Sozialpolitik*, VI (1939), 379.

Chapter 8

Control of Prices

LEGISLATION ON PRICE POLICY, 214. GENERAL REMARKS ON THE PRICE POLICY OF THE NAZI GOVERNMENT, 215. PRICE POLICY, 1931-1936, 218. PRICE POLICY, 1936-1939, 222—The Creation of a New Office of Price Formation, 222; The Administrative Organization of the Office of Price Formation, 225; General Objectives of Nazi Price Policy, 226; Price Determinants, 228; Techniques, 232; The Price-Stop of November 26, 1936, 232; Individual Techniques, 236; Regulations for Special Industries and Commodities, 242. Levies and Subsidies, 250. AGRICULTURE, 251. PRICE POLICY SINCE THE OUTBREAK OF WAR, 258. MEASURES AGAINST EVASIONS, 270. AN APPRAISAL OF NAZI PRICE POLICY, 273.

Legislation on Price Policy

Prices of commodities and services in Germany have been subject to some degree of government control since 1931, when price control was first used as a general instrument of national economic policy. Previous price legislation had been restricted to prices administered by cartels, monopolies, public utilities, etc. On December 8, 1931, the Reich Commissioner for the Supervision of Prices was appointed.[1] He remained in office until the end of 1932, when his duties and authorities were taken over by the Department of Economics.[2] On July 15, 1933, the Nazi government provided for a certain division of labor by assigning the price policy functions to the Department of Economics and the Department of Agriculture,[3] the latter to take charge of agricultural price policy and the Department of Economics to be responsible for all other prices. Another change occurred on November 5, 1934, when once again a Commissioner for Price Supervision was appointed to take over all authority concerning prices previously vested in the various government departments and agencies.[4] An earlier decree of August 7, 1934,[5] had ex-

[1] *Reichsgesetzblatt*, 1931, I, 699.

[2] *Ibid.*, 1932, I, 572.

[3] *Ibid.*, 1933, I, 490.

[4] *Ibid.*, 1934, I, 1085.

[5] *Ibid.*, 1934, I, 771.

tended the power of the price authorities over all commodities and services administered by private organizations. A law of December 4, 1934, extended the authority of the new Commissioner to prices of all commodities and services.[6] Before these two developments the power of the Price Commissioner had been restricted to administered and free prices of those commodities and services which make up the daily necessities of life.

The arrangement of November 5, 1934, was conceived as temporary, the law providing for the abolition of the Office of the Price Commissioner by July 1, 1935, and for a redistribution of its tasks among the various Federal departments. The last legislative change occurred on October 29, 1936,[7] when a completely new office, the Office of the Reich Commissioner for Price Formation, was created for the specific purpose of making price policy an integrated and decisive part of Nazi economic policy. Since then it has been the supreme authority with regard to all prices in the economy,[8] and has developed into one of the most important government agencies affecting economic policy. The Commissioner's functions and actions had repercussions far beyond his immediate task of supervising and forming prices.

No information is available to explain why the administrative setup changed as often as it did. It may be assumed that administrative quarrels and controversies among the various agencies were partly responsible.

General Remarks on the Price Policy of the Nazi Government

The price policy of the Nazi government must be seen as a part of its slowly emerging planned economy. As long as idle men and idle material resources were plentiful, the government did not need to provide an intricate and detailed scheme for accomplishing its objective. In the early period of Nazi control, the desire to change the German economy into a military economy could be accomplished with a few bold strokes directed at key problems, such as wage policy, industrial and agricultural organization, and banking and credit policy. There was little need yet for issuing detailed instructions to the various sectors of the economy, or for interfering to any large extent with entrepreneurial activity. Slowly the situation changed, and it became necessary to regulate in ever-increasing detail. The shortage of resources and capacity, the single-minded attention given by the Nazi government to its ultimate military objective, the necessities imposed by that objective made great changes unavoidable.

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[6] *Ibid.*, 1934, I, 1201.

[7] *Ibid.*, 1936, I, 927.

[8] We are aware of only one exception. Early in 1942, a Special Commissioner for Agricultural Prices was appointed; the office was abolished, however, after a few months (H. W. Singer, "The German War Economy, VI and VII," *Economic Journal*, LII, 1942, 187 and 378-379).

Price policy during the first few years of Nazi administration is a good example of the gradual steps in the direction of economic control taken in the early stages. At first the price policy differed little from the price policy of other governments confronted with similar emergencies. But as early as 1934 some of the German laws broke new ground, foreshadowing developments which eventually led to revolutionary measures in the field of prices.

As the need for planning grew, the government was compelled to supervise the individual entrepreneur more closely. Since the Nazis were determined not to expropriate him, new means had to be devised to keep individual ownership compatible with strict governmental supervision. Price control was the entering wedge and before long it became one of the basic instruments of total economic control. The entrepreneur continued to be the owner of his enterprise. But the cost accounting system which was imposed upon him, in connection with price control, enabled the government to supervise and control minute aspects of the enterprise and every single move the entrepreneur made. The size of his profit was influenced and later often determined by the Price Commissioner and no longer by the play of market forces.

As soon as the Nazi government limited the significance of market factors as determinants of price, they had to substitute some other principle in terms of which their accounting system could fix and control prices. As an ideological blind for their extreme power over the economy they borrowed the language of medievalism and talked about a "just" price, claiming that prices which resulted from the unrestricted operation of the market were often undesirable, unjust, and economically harmful.[9] In a free economy, they claimed, only time and economic processes can determine whether prices are equitable. For the Nazis these forces were too impersonal and too slow. They preferred to have their own authorities decide upon the "just" price. In their opinion, such a decision could be made only if they were able to take into account, and even change, any or all of the various factors which affect prices. Any decision would have to bear in mind the effects of specific prices on future economic processes. Formation of prices[10] therefore had to be accompanied, they insisted, by regulation of production, supervision of foreign trade, control of wages, regulation of consumption, rationing, etc.[11]

A price policy so conceived is an instrument that obviously affects a wider area than price alone. The price no longer forms itself, it is formed; instead of dominating, it is dominated. The power which it exerted before is now exercised by the planning authorities of the State. It would be a mistake, however, to assume that prices lost all significance. Actually their significance underwent a radical change. In the free market, price, to a large extent, hovers about the intersection of demand and supply, and determines how much will be produced. In this planned economy, however, the amount to be produced was determined in advance, and the price was set to enable entrepreneurs to supply the desired amount at a profit. Those who planned for the economy at large were the supreme arbiters. Price did their bidding. Prices, however, did continue to perform some of the functions that grow out of the very nature of any price system. For one, they continued to be measures of the relative values of commodities and services. For another, they operated in conjunction with wages, interest, rents, and taxes as an instrument through which the national income was distributed.

We now turn to a discussion of price policies during specific periods.

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[9] *Vierteljahreshefte zur Wirtschaftsforschung,* XII (1937-38), 22.

[10] The English words "price formation" and "to form prices" do not correspond completely with the German concept of "Preisbildung." The German word indicates that prices were not fixed more or less arbitrarily, but "formed" in terms of certain principles and on the basis of carefully formulated methods.

[11] *Vierteljahreshefte zur Wirtschaftsforschung,* XIII (1938-39), 334.

Price Policy, 1931-1936

In a period of five years, the price agencies were developed from an organism that supervised prices into an office that actually formed and fixed them. The objectives of the various agencies with authority over prices in the years before 1936 changed several times. The chief task of the Price Commissioner of 1931 was to speed up the deflationary process by forcing prices down, particularly administered prices which otherwise would have declined very slowly. In later years, especially since about 1934, the objectives of price policy changed. Instead of reducing prices the Commissioner was confronted with the necessity of stemming the tide of rising prices which might have been unloosed by the expansionist program that the Nazis pursued, and by the shortage in raw materials resulting from the limited foreign exchange supply. Various regulations were issued; they were enforced by the police authorities through severe penalties. Although the Nazis did not succeed in maintaining the price level completely stable, they seem to have been quite successful in keeping price increases within narrow limits.[12] The price authorities, whether government departments or the Price Commissioner, attempted in particular to avoid all price increases which the Nazis considered unjustified. Only price increases caused by an unavoidable increase in costs were permitted. Price rises were labeled "unjustified" particularly when they originated in the exploitation of a monopolistic situation, in a temporary scarcity in the supply of a specific commodity, or in a buying wave caused by psychological attitudes of the consumers.[13]

As time went on, the price authorities used increasingly refined methods. They assumed that an unjustified increase in price had taken place even when a price reduction, which they considered desirable and possible from an economic point of view, did not occur. When, for instance, the increase in the use of existing capacity led to a decline in overhead cost and in cost per unit, the Price Commissioner attempted to have the prices for the affected commodities reduced, except in the cases where a reduction in unit costs was canceled out by an increase in other costs. The regulations which were issued from 1934 to 1936 clearly indicate how far the Nazi authorities had to go in exercising ever-increasing control over the economy.

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[12] A comparison of the German price developments with price movements in other countries is very difficult for the period under discussion, because of devaluation and depreciation outside of Germany. The Index of wholesale prices in Germany stood at 66.3 in January, 1933, and at 75.5 in January, 1936. During the same period, the wholesale price Index of the London "Economist" for Great Britain moved from 65.9 to 77.2 (*Statistical Yearbook of the League of Nations, 1935-36*, pp. 239 and 241). The percentage increase in Great Britain is even somewhat greater than in Germany. But the composition of the two indices is different. Moreover, part of the increase in the German price level was deliberate, namely, the increase of agricultural prices.

[13] *Die Wirtschaftskurve*, XVI (1937), 53.

Where administered[14] prices existed in the case of organizations like cartels, the government found it comparatively easy to control price. Through decrees of May 16, 1934,[15] November 12, 1934,[16] and December 11, 1934,[17] any increase in prices, in margins, etc., or any reduction in rebates administered by organizations, associations, cartels, etc., was made subject to the approval of the Price Commissioner or to those agencies to whom he had delegated that power. At the same time the price of any commodity which was not already administered by some such organization was henceforth not to be administered by that organization without permission of the same authority. As usual in such decrees, violations were subject to unlimited money fines or unlimited prison terms. The government thus secured complete authority to prevent price increases within a fairly large area. It permitted individual prices to rise only if simultaneous declines in other prices would keep the price level constant. The government strengthened its power even further by a decree of November 19, 1934,[18] which made it compulsory for all organizations, associations, cartels, etc., to file with the Price Commissioner on or before December 15, 1934, a list of all administered prices in effect since June 1, 1933, or all changes in administered prices since that date which were unfavorable to the purchaser.[19]

[14] "Administered" is not a completely adequate translation of the German expression "gebundener" price, which is a price that was not automatically subject to market forces. "Fixed prices" might be a better translation, but this term is used in this volume for prices regulated by the government.

[15] *Reichsgesetzblatt*, 1934, I, 389.

[16] *Ibid.*, p. 1110.

[17] *Ibid.*, p. 1245.

[18] *Ibid.*, p. 1186.

[19] Dr. Gördeler, the Price Commissioner, mentioned in a speech on March 3, 1935 (Deitrich Dickert, *Die Preisüberwachung 1931-1936*, Berlin, 1937, p. 17), that since 1933 there had been fifteen hundred cases of newly administered prices and that they had affected one hundred different groups of commodities and services. Besides these cases of administered prices (by organizations) mentioned by Dr. Gördeler, loose arrangements concerning prices increased rapidly, especially where government orders were involved.

Regulations concerning prices not filed with the Price Commissioner by December 15, 1934, were to become ineffective. From a study of price movements in the period from 1933 to 1936 made by the Institute for Business Cycle Research[20] it appears that the efforts of the government to reduce some of these administered prices met with some success.

It proved much more difficult to regulate prices in the free market. Two different types of methods were used. With regard to prices of leather, wallpaper and peeled and unpeeled willows, for example, the Nazi government did not initiate important changes. It had authority to fix maximum prices or, in the case of willows, maximum and minimum prices. These are familiar devices. But in the laws or decrees affecting the textile industry, the nonprecious metals, and meats and sausages, passed in 1934 and 1935, the government introduced novel price-regulating methods. These laws and decrees froze prices on the basis of prices during a previous period. There was a certain variation in detail from one regulation to another, but in substance they were all the same. For the purpose of this analysis, we shall use the law of December 6, 1935, affecting the textile industry.[21] It includes the most detailed treatment of the problem. Prices in the period of March 1 to March 21, 1934 (in the case of meat and sausages the end of March, 1935), were the base prices which could not be exceeded. These prices could be increased only if an unavoidable rise occurred in the price of raw materials or semimanufactured goods needed for the production of those commodities, or if the entrepreneur's outlay for wages and social insurance unavoidably increased. The advance in price was not to be permitted if the increase in cost could be counteracted by a decline in other costs. If a price for a comparable commodity either did not exist or was not known for the base period, the entrepreneur could quote a price which was based upon his cost plus "reasonable" interest on his capital. In the decree of April 21, 1935, affecting the textile industry special provisions were included to make evasions of the law difficult. Terms of payments, for instance, could not be shortened if this practice had not been customary in the trade, or if there were no special justifications for it. In earlier decrees, the change in cost resulting from a change in output was taken into consideration; in some cases, price increases because of a change in overhead cost were permitted, in others, not. The change of cost provisions was later omitted.

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[20] *Wochenbericht des Instituts für Konjunkturforschung*, IX (1936), 191 ff.

[21] *Reichsgesetzblatt*, 1935, I, 1411; see also *ibid.*, p. 561, for a decree of April 21, 1935.

Price movements in world markets proved a difficult problem for the German price authorities. Without special regulations, the desired relationships between import prices and domestic prices would have ceased to exist. The early laws and decrees contained special provisions for imported commodities sold in the domestic market or used in manufacturing processes at home. Later, a special decree of September 22, 1934, concerned with the prices of imported commodities was issued.[22] Increases in the prices of imported commodities were permitted even if this meant exceeding the prices of the base period. But imported commodities or commodities containing imported raw material could not be offered at prices higher than those prevailing in foreign markets on that particular day, plus the usual overhead and profit. The Supervisory Agencies[23] were instructed to ascertain the price permitted by law. Violators of the law faced unlimited money fines or prison terms.

The decree of January 20, 1936,[24] designed to control price increases resulting from increases in railroad freight rates, went a step further. It provided that the 5 per cent increase in freight rates effective on January 20, 1936, was not to be considered an acceptable reason for raising prices except in cases in which a government department granted special permission. Similarly, indirect compensation through changes in terms of delivery and payment was forbidden. Thus, instead of the extra cost of freight being absorbed by the consumer, the entrepreneur was compelled to accept an increase in his cost of production at the expense of his profit unless, of course, he was able to compensate for it through reducing other costs. This eliminated the danger that a rise in freight rates would become the point of departure for a general price rise in the economy.

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[22] *Ibid.*, 1934, I, 843.

[23] See pp. 47 and 226.

[24] *Reichsgesetzblatt*, 1936, I, 26.

Price Policy, 1936-1939

The Creation of a New Office of Price Formation. When the Nazis embarked upon what now appears to have been their most deliberate and most carefully calculated move towards military superiority, the launching in the autumn of 1936 of their second Four Year Plan, the condition of the German economy had completely changed from that of the early Nazi period after 1933. The economy was on the way to full employment. Production and employment had reached about the predepression level. Moreover, since the Nazis were rushing production of new capacity and armaments, tensions were created, particularly in the capital goods and armament industries. Beginning in 1936, the rising demand exceeded supply in all important industries. Shortages developed in almost all commodity markets, giving producers and traders a quasi-monopolistic position.[25]

These danger signals forced the Nazis into action. They realized that tensions were bound to continue. The government, knowing that its demand for production of all kinds of war materials was likely to continue to increase, realized that unless prices could be effectively controlled the entire Nazi program would be jeopardized.

By a law of October 29, 1936, the office of a new Price Commissioner was created.[26] The Commissioner was to be appointed by the Reich Chancellor and be subordinated to the Commissioner for the Four Year Plan. The law empowered the Price Commissioner to issue rules and decrees necessary to secure "economically justified" prices. Any authority which previously had been vested in any government department to supervise, fix, or approve of prices was shifted to the new Price Commissioner. This included the authority over agricultural prices heretofore vested in the Department of Agriculture and in the Reich Food Estate.

The new Commissioner was granted authority over commodities and services of any and every kind: prices of the products of industry, handicraft, agriculture, forestry, and public utilities; transportation rates; rents for apartments and houses; city fees and postal rates; fees charged by physicians, hospitals, courts, lawyers, marshalls, notary publics; insurance premiums; admission prices to theaters, concerts, and movies; prices of newspapers, magazines, and advertising; subscription fees for radios; dues for political parties, agricultural, industrial, and professional organizations, dues in any kind of clubs, associations, choral and athletic groups; prices in international trade as far as the power of the German government reached; and, finally, all charges and commissions in the field of money and banking.[27] An exception was made in the case of wages and salaries. The existing statutory provisions for their supervision and regulation were not affected by the new law. The Trustees of Labor were to continue to have authority over them. As for interest rates and security prices, the Price Commissioner declared that he would not make use of the powers conferred upon him. Security markets were hence the only markets to remain "free," as free as any market could be in the increasingly regulated Nazi economy. It was assumed[28] that it was not necessary to supervise them since changes in security prices allegedly reflected changes in their "real values," not merely supply and demand factors.[29]

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[25] Heinrich Rittershausen, "Die staatliche Preispolitik auf den deutschen Hauptmärkten der Gegenwart," *Weltwirtschaftliches Archiv*, LII (1940), 418.

[26] *Reichsgesetzblatt*, 1936, I, 927.

The law in no way limited the activities of the Price Commissioner in the execution of his functions. He was completely free to decide how he wanted to make use of the authority vested in him. Not only was he to determine the price for the final consumer, but he was to supervise the various stages of production through which a commodity passed, and to interfere wherever it suited his purpose. It was his responsibility to track down the origin of increases in the final price for the consumer, prevent these increases, and, if possible, remove the causes. This meant that his influence could not be limited merely to changing or fixing prices; his decisions would necessarily affect all the factors that might influence the movement of prices, whether these factors operated directly or indirectly. Since so many economic policies and measures sooner or later affect prices, the Price Commissioner's Office was a reservoir of tremendous power. He could take almost any action that he felt might prevent some future price rise.

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[27] Increases in indirect city taxes could not take place without consultation with the Price Commissioner (Leonhard Miksch, "Wie arbeitet die Preisaufsicht," *Die Wirtschaftskurve*, XVI, 1937, 305).

[28] Leonhard Miksch, "Vom Preisstop zur Kostenkontrolle," *Die Wirtschaftskurve*, XVIII (1939), 253.

[29] A change which we have discussed elsewhere (see p. 133) occurred in 1941 and 1942; the measures then introduced were such that the official Institute of Business Cycle Research announced "the disappearance of the last free market" (*Wochenbericht des Deutschen Instituts für Wirtschaftsforschung*, XV, 1942, 39).

Paragraph 4 of the law provided that violators of decrees and rulings issued by the Price Commissioner were to be punished with prison, hard labor, or money fines, or a combination of them. Prosecution of violators was to be carried out before the notorious Special Courts, allegedly to expedite matters. What was even more significant and probably very effective, was the fact that, to some extent, the enforcement of the law was taken out of the hands of the courts. The Commissariat, itself an administrative agency, was given judicial functions. The Price Commissioner, although not authorized to punish violators with prison or hard labor, was permitted to charge money fines, the amounts of which were not limited by law. They were supposed to be large enough to absorb any illegal profit made by the violator, and at the same time to result in a serious reduction in his wealth. In addition, the Commissioner was empowered to close enterprises which had violated the law, or to make their continued existence dependent upon certain conditions. He could make it impossible for any entrepreneur to continue any further in the line of business in which the violation occurred, or specify the conditions under which he would be permitted to continue. To arouse public opinion against "Schädlinge" (persons who do harm), public announcements about violators of the law could be made. All decrees, rulings, regulations, etc., issued by the Price Commissioner were final—not subject to any review by the courts. In the event that a decision by the Commissioner harmed a citizen, no compensation could be claimed. All administrative agencies and departments as well as the courts were at the disposal of the Price Commissioner. At his request, a court would subpoena any witness or expert he desired. The regular police authorities throughout the Reich were charged with the supervision of prices in retail trade. In addition, the Price Commissioner himself and his subsidiary offices built up a bureaucracy of supervisors and accountants who were to operate wherever the price authorities considered it necessary.

The Commissioner who was appointed to this new office differed greatly from his predecessor in his conception of price policy. While his predecessor appears to have felt that his job was largely one of exercising police functions over prices in order to prevent price increases, the new Commissioner conceived of his office as a policy-making and price-"forming" agency. The change in the name of his office suggests the change in purpose. All the previous Price Commissioners had been appointed Commissioners for Price Supervision (Überwachung). The new Commissioner was assigned the title of Commissioner for Price Formation (Preisbildung). He was no longer merely a guardian over prices. He was supreme arbiter. He made and unmade them. His decisions could influence and affect every element that entered directly or indirectly into the formation of the final price.

The Administrative Organization of the Office of Price Formation. Four administrative agencies, which still exist and function, were charged with the execution of the law. There were the Price Commissioner himself and three subordinate Boards.

1. *The Reich Commissioner for the Formation of Prices* (Reichskommissar für die Preisbildung). All powers which are not specifically delegated to his subordinate Boards are exercised by the Commissioner himself. He fixes prices, price margins, and commissions, unless they affect only a limited territory. He fixes money fines in excess of 50,000 reichsmarks. He alone has authority to close enterprises which are engaged in actual production, to specify the conditions under which they can continue operation or to make it impossible for certain persons to be active in a specific part of the economy. With the approval of the Commissioner for the Four Year Plan, the Price Commissioner may delegate some of his powers to other agencies.

2. *Boards for the Formation of Prices* (Preisbildungstellen). The powers of these Boards are exercised in Prussia by the governors of the various provinces; in all other states of the Reich, by the governors of the states. These Boards fix prices and price margins for limited territories. They also act on complaints against penalties or against decrees handed down by the Boards for the Supervision of Prices ordering the discontinuance of a business. The Boards for the Formation of Prices have the au-

thority to request anyone to provide information concerning prices, and to submit corroborating documents.

3. *Boards for the Supervision of Prices* (Preisüberwachungsstellen). These Boards are subordinated to the Boards for the Formation of Prices. Their functions are performed by regular central administrative agencies in the various states; sometimes, in large cities, by the police commissioners. To a large extent, they merely supervise existing prices. To facilitate the execution of their duties, they have been given the following authority: (a) they may indict persons because of violations of rules, and may ask for prosecution before Special Courts; (b) they may impose penalties not exceeding 50,000 reichsmarks; (c) they may close all businesses except those which are directly involved in actual production; (d) they may decide on complaints against decisions by subordinate agencies. To those subordinate agencies, they may delegate power to start proceedings before a court and to impose small fines up to 500 reichsmarks in case of violations of price regulations.

4. *Supervisory Agencies* (Überwachungsstellen). In addition to the various agencies whose task is to fix and supervise prices, the Supervisory Agencies[30] were used increasingly to supervise domestic prices. The primary function of the Supervisory Agencies was to control and regulate purchases from abroad and to prevent foreign purchases at excessive prices. Since these Agencies acquired vast experience and information about world and domestic markets, they were utilized to assist in the central supervision and formation of prices, thus supplementing the work done locally, or for smaller areas, by the various other Boards. A special arrangement for that co-operation, especially in the price supervision of imported commodities, was made between the Department of Economics and the Price Commissariat.[31]

General Objectives of Nazi Price Policy. It becomes obvious from the entire German literature on prices and price policy[32] that the principle objective of Nazi price policy was the prevention of inflationary movements. Price policy alone could not have accomplished this task. It was to be employed in conjunction with the other types of control which were discussed in several previous chapters. It was conceived as an integral part of a whole system of economic policies designed to achieve a balance not only between the total amount of money incomes and the total amount of commodities, but also between the supply and demand for specific commodities.[33] Insofar as possible, that balance was to be achieved not so much by curtailing demand, but by increasing supply. Agriculture, where the main objective was increased production, may be cited as an example. There the price measures, which supplemented regulations designed to increase supply, included the reduction of the price of artificial fertilizer and of essential agricultural machines, the prevention of a price increase for building material, the establishment of an improved price relationship between a number of individual agricultural commodities, such as the price relationship between various grains, the establishment of a price differential for potatoes based on the type of consumption, and the regularization of seasonal price movements.

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[30] See p. 221.

[31] W. Rentrop, *Preisvorschriften und Wirtschaftspraxis* (1939), V, A.

[32] See, for instance, Miksch, *op. cit.*, p. 249.

Although the maintenance of a stable price level was continually emphasized throughout the entire period, other objectives of Nazi price policy often emerged. The Price Commissioner evidently became more and more interested in having price policy function to increase the productivity and profitability of business. He also pursued certain social objectives, such as improving the farmer's economic position. The accomplishment of these objectives frequently required the establishment of new price relationships between individual prices and between price groups. The Institute for Business Cycle Research calls attention to various instances in which new price relationships were intentionally sought and attained.[34] It mentions the relationship between prices for agricultural and industrial commodities, the relationship between raw material prices and prices for manufactured commodities in wholesale and retail trade, and the relationship between prices of domestic and foreign goods.

A factor which frequently made necessary a rise in price, was the increased use of substitute commodities which were usually more costly than natural raw materials. Price increases were also permitted either to increase the profitability, and thereby production in certain industries, or to discourage consumption where shortages of supply existed, or—later—because of an unavoidable increase in cost. When an increase in price was considered inevitable, an attempt was made to cancel out the effect of the increase upon the consumer and the entire economy by reducing other prices. The prices of some cartelized and some trademarked commodities were reduced, for example.[35] Whether significant price reductions took place in the "free" commodity area is not known.

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[33] Wilhelm Rentrop, *Preisbildung und Preisüberwachung in der gewerblichen Wirtschaft*, (Hamburg, 1937), pp. 34 ff.

[34] *Wochenbericht des Instituts fuer Konjunkturforschung*, XI (1938), 3.

Whenever price manipulation was used in the interest of such objectives as an increase in general production or increased production of specific commodities, price policy reached out beyond the immediate price area and entered the domain of production, management, and profit policy control. This became apparent as soon as the Price Commissioner and his subsidiary Boards no longer considered the cost of production of an individual enterprise as given, but looked upon it as a legitimate object of supervision, control, and change. The rules issued for the formation of prices involving government orders, for determining prices in the building industry, and later in many other industries, for curtailing and determining profits, the very elaborate system of accounting which was introduced—all are symptoms of the impact of price control beyond the immediate price area.

Price Determinants. The character and purpose of price control underwent a radical change at the hands of the Nazis after 1936. No longer were prices to be resultants of the automatic operation of the market mechanism. To the Nazis the market factors which entered into the determination of prices were both insufficient and unjust. When demand exceeds supply, and production cannot be stepped up immediately, prices, they maintained, should not be permitted to rise; for this makes it impossible for the poorer consumer to buy, and enables producers to make excess profits. But once the impersonal market forces were eliminated a new basis for price determination had to be substituted. The standard provided by law was the "economic justification" of prices.

[35] *Ibid.*, X (1937), 251, and XI (1938), 91.

In no place can one find a really satisfactory explanation of how the Price Commissioner interpreted this provision for "economically justified" prices. Rentrop, a high official in the Price Commissariat, who deals with the problem at some length, admits that there was no unambiguous and universally valid definition of an "economically justified" price.[38] The economic justification of a price depends upon the general, political, and economic conditions prevailing at the time. Since the individual entrepreneur does not usually have sufficient information concerning these conditions, the government has to determine the economically justified prices. "A price is economically justified if it covers the inevitable cost and if it stimulates the desired production of that particular commodity." In individual cases a price could be below or above the cost of production, but in one way or another it was always determined by those costs.

From Rentrop's definition it is clear that a price might be economically justified at one time and not at another. For the period of the second Four Year Plan Rentrop interpreted an economically justified price in various ways. The primary consideration was the maintenance of stability in the price level. In addition, economically justified prices were prices which served the following economic objectives of the government: (1) helped to build up the equipment necessary to the execution of the second Four Year Plan; (2) helped to secure the production of the so-called Four Year Plan commodities, artificial rubber *(buna)* for example; (3) contributed to the production of a sufficient quantity of consumer commodities, even though the potentialities of the German productive system were to a large extent to be geared to the production of capital goods. On the other hand, a price was not economically justified (1) if it would result in cut-throat competition which would harm the community, or (2) if it were a price which would take advantage of an acute shortage. A price covering the cost of production, or a price at which the commodity had been purchased before, or the average price for a definite comparable period in the past, or the price at which the commodity could be repurchased was not per se economically justified.

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[38] *Op. cit.*, pp. 27 ff.

In the early days most of the decisions must have been quite arbitrary. Originally, the mere fact that prices were not higher in the past was often considered sufficient reason for disallowing present price increases. It soon became obvious, however, that more pertinent criteria were necessary for determining the final price of commodities. The rigidly stable money wage rates and the movement of prices outside of Germany were among the first to be considered important elements in such "formation" of prices. A third element was the rate of profit that could be affected by decisions of the Price Commissioner. But this was not all. It became more and more apparent that other considerations, such as economical management, efficient organization, trade margins, the possibility of price reductions in some cost elements to counteract increases in others, and a host of other factors which had to be weighed carefully, were important before a price was set. The provisions issued in 1938 concerning prices for government orders, and subsequent regulations for various industries modeled after the decrees affecting government orders, were the final outcome of the many efforts of the Price Commissioner to cope with the increasingly difficult problem of clarifying the basis for price decisions. They specified that prices were to be determined by the total "cost of production" plus a rate of profit fixed by the Price Commissioner.

"Cost of production" is, of course, ambiguous, and the significant question is its interpretation, with which all subsequent developments were concerned. The serious objections to using a cost-plus system were not overlooked; in fact, its dangers were strongly emphasized.[37] If the entrepreneur was assured of compensation for his costs under all circumstances, there would be no incentive to strive for maximum efficiency and economy. Against this danger the Office of Price Formation had two principal means of protection. First, it deliberately encouraged cost competition among the various units of industry, in order to have a measure of the lowest possible cost of a specific commodity. Although the rate of profit was increasingly limited, there was never any objection, at least before the outbreak of war, to the entrepreneur's raising the total profitability of his enterprise if he could reduce his unit cost either by rationalizing the business or by increasing the rate of output. The principle of cost-competition became particularly significant in the regulations concerning the formation of prices for government orders. Should various entrepreneurs contract to fill a particular order, which is what usually happened, the average cost of production was to be the basis of the final price. Second, there was no ready acceptance of the entrepreneur's version of cost of production. Price supervision developed into supervision of cost. Eventually the Price Commissioner controlled all the factors entering into the determination of "cost of production." In his regulations of July 25, 1938, concerning the price for electric power[38] and in the provisions issued a few months later concerning prices for government orders he made it clear that a distinction would be made between the actual cost of production of an enterprise and the cost which would be considered "just." The finally set price was based only on such elements of cost as the Price Commissioner, in a careful analysis, had found to be economically necessary and defensible for an industry. As we shall see later, the Price Commissioner started applying this method by not recognizing as cost elements payment of wages exceeding the officially fixed wage rates, or depreciation beyond an amount which he considered economically justified, or interest and debt service on capital investment which was held to be more extensive than necessary, or other expenditures which were not considered "reasonable."

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[37] Rittershausen, *op. cit.*, p. 432.

It was hoped that both methods—the maintenance of competition, and the concept of "justified" costs—would stimulate entrepreneurial initiative, which the Nazis were always anxious to keep alive. Entrepreneurs would be eager to keep production costs below the final price, which was either determined on the basis of competitive bids or declared justified by the Price Commissioner. Since the difference between this final price and the cost at which an entrepreneur could produce would be a source of increased earnings to the entrepreneur, he was interested in maximizing this spread. The fact that this spread would increase with every decline in the cost of production was a powerful incentive to entrepreneurs to be as economical as possible.[39]

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[38] Miksch, *op. cit.*, pp. 258-259.

In the discussion thus far, scarcely anything has been said about the part played by the rate of profit in the determination and forming of the final price. That the manipulation of profit margins presented possibilities of counteracting forces driving prices higher was recognized at an early date.[40] By disallowing price increases even when costs were up, profit margins were reduced. Eventually, however, the problem of profits had to be met directly. When the cost-of-production method was introduced for government orders, late in 1938, the determination of the permissible rate of profit became one of the important and difficult problems. At that time the Price Commissioner was to fix a rate of profit "which would enable the entrepreneur to conduct his business in an orderly manner and with the greatest possible efficiency."[41] While general rules for the profit rate were laid down, the Price Commissioner retained complete authority to determine the specific rate of profit in any individual industry or any individual enterprise. When the war broke out in September of the following year, it was again the rate of profit which was used in an attempt to reduce prices.

Techniques. 1. *The Price-Stop of November 26, 1936.* The price policy which the Nazis pursued from 1936 on was based in a certain sense upon the experience of the first World War and the experience of various Price Commissioners from 1931 to 1936. The system which they developed was constantly adjusted to the demands of changing conditions.

The Nazis were very anxious to avoid the errors of the first World War. Immediately upon the outbreak of war, on August 4, 1914, the state governments and subordinate jurisdictions were given power to fix maximum prices for raw materials, fuel and light, and the necessities of daily life, particularly food and agricultural products.[42] Many local authorities made use of this power and fixed maximum prices in local markets for vegetables, flour, salt, etc. But this procedure proved a failure. The local price fixing was evaded by moving commodities to local markets not yet subject to regulation. Consequently, the law was changed through a decree of October 28, 1914,[43] in which the Bundesrat, representing the various state governments, was empowered to fix maximum prices for the entire Reich. Maximum prices were then fixed for individual commodities, such as rye, wheat, and barley, subjecting the entire national market in *certain* commodities to central regulation. This policy also failed. It led to a large rise in the price of those commodities which were not subject to government decree. As a result, it became necessary to fix maximum prices for an increasing number of commodities. To cite an example: the Bundesrat fixed a maximum price for hogs on November 4, 1915, but only in communities in which public slaughter houses existed. Farmers evaded this price regulation by increasing the number of hogs offered to the canning industry. In order to make the regulation effective, a maximum price for all hogs sold on farms had to be decreed on February 14, 1916.

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[39] For developments after the outbreak of war, see pp. 258 ff.

[40] Leonhard Miksch, "Wie arbeitet die Preisaufsicht," *Die Wirtschaftskurve*, XVI (1937), 310 and 314.

[41] Erich Flottmann, "Die Überwindung der Preisautonomie," *Der Deutsche Volkswirt*, XIV (1940), 431.

[42] *Reichsgesetzblatt*, 1914, p. 339.

Since the government's price regulations during the first World War affected individual commodities or individual markets, and since the various decrees were by no means co-ordinated, some price decrees often upset previously existing price relationships, conditions in markets became confused, and adjustments to changing conditions of consumption and production failed to take place. Prices during this period were fixed whenever an acute emergency made it necessary. The maximum price was usually fixed a little lower than the market price prevailing at the time of government action. As a result, the later a maximum price for a given commodity was fixed, the higher it was. The resulting change in price relationships in the economy could only have been avoided if the prices of groups of related commodities had been fixed simultaneously. An example of this confusion in price relationships was the inversion that took place between fodder and grain prices; fodder, which had always sold at a lower price than grain, suddenly became more expensive. Another example was the disturbance in the customary price relationship between cows and milk. What happened was that the price for beef cows was fixed far too high as compared with the price for milk.

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[43] *Ibid.*, p. 459.

The Nazi price policy that began in 1936 avoided such mistakes and difficulties with a single device, the price-stop. In a decree of November 26, 1936,[44] the new Price Commissioner ruled that all prices be maintained or restored to the level of October 17, 1936. Not only were all prices stabilized, but the relationship between all prices was automatically maintained as of that date. Since all prices were included, direct, undisguised evasion was almost impossible.

The price-stop did not mean that universal maximum prices for all commodities and services were fixed. It was a stop that affected each individual commodity directly; the many prices that obtained on October 17, 1936, for any and each individual commodity, prices which, as might be expected, differed from seller to seller and for different purchasers, automatically became the maximum prices for the respective buyers and sellers, whether they had been "free" prices or "administered" prices such as prices fixed by cartels or by the agricultural authorities. A specific machine, for instance, would not sell at a single fixed maximum price, but for the very same prices to the various purchasers that prevailed on October 17, 1936. If on that day a purchaser enjoyed special rebates, discounts, etc., he was entitled to the same privileges from the same seller in the future. For many commodities, therefore, there were innumerable maximum prices. In this respect the price-stop was something entirely new. It did not disrupt the millions of existing relationships between groups of producers and groups of consumers. For the time being, it was not necessary to determine a compromise price which would be applicable to all producers, and it was not necessary to destroy any business undertaking (and thereby create undesirable dislocations in the economy) by compelling it to sell at unprofitable prices. Nor were the more efficient units in the industry in a position to secure extra profits on the basis of prices which were set high enough to allow less efficient units to continue operations. Two competitors who sold at completely different prices on October 17, 1936, because of differences in the cost of production, because of differences in the service which they rendered, or because of differences in the type of customers to whom they catered, could continue to sell at such different prices as long as they did not exceed the prices of October 17, 1936. In this way the great variety of economic conditions and relationships which characterize a modern economy were not jeopardized.

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[44] *Ibid.*, 1936, I, 955.

One of the advantages of the individual price-stop, at least in the beginning, was the fact that it enabled the government to control entrepreneurs with ease. Usually it was not difficult to ascertain and enforce the prices which had prevailed on the base date; whenever it was not yet possible to lay down detailed rules for the formation of prices in a given industry, the price-stop was a temporary protection against undesirable and unwelcome increases in prices. Moreover, the problem of how to fix the price for new commodities or new qualities of commodities, those that came into being after October, 1936, was temporarily settled by applying to them a price derived from the price-stop of commodities to which they bore a close resemblance. As time elapsed, however, it was inevitable that control of prices on the basis of the price-stop would become increasingly difficult. First, as the date of the base period became more remote, it was more difficult for the government to secure evidence for the prices which prevailed on the date of the stop. In addition, new methods, new types of commodities, new qualities, new inventions grew so numerous that it became increasingly unsatisfactory to use the prices of October 17, 1936, as a basis for comparison.

The Nazis, of course, realized from the beginning that artificial stabilization, such as the price-stop, could last for only a limited period. But that period was sufficient to give the Price Commissioner control over the entire price structure and to enable him slowly and deliberately to adjust prices and price relationships both to the changes in economic conditions and to the objectives of Nazi military and economic policy. In a speech which he made on June 19, 1940, almost four years after the introduction of the price-stop, Mr. Wagner, the Price Commissioner, summarized his original intentions.[45] There is enough evidence to show that his statements reflect the opinions held in high quarters when the price-stop was introduced:

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[45] *Mitteilungsblatt des Reichskommissars für die Preisbildung,* 1940, Pt. I, A, 544 ff.

> The price-stop which I decreed as soon as I began my activities was never meant to result in a price rigidity to be maintained by use of the police power. We did not crave police power. The measure was something completely new, something that had never before been tried in our economy. It is not surprising that it inspired a great deal of suspicion and, to some extent, a certain amount of misunderstanding. We needed the protection afforded by the general price-stop in order to secure a basis which was economically desirable, and which would permit us to decide on the many actions which were to follow. We needed such a starting point to cope with the continuous flow of economic developments. Only thus was it possible for me to gain the flexibility which I considered necessary for the execution of my task. I intended to build up regulations with regard to the formation of prices which little by little would make me the master of the situation. If the government wants to establish prices, it can succeed only if the price-setting agency secures supreme power. No doubt, such an objective will not be welcomed by many; but power is necessary if one wants to maintain the price level as stable as possible. Our methods were successful. Without a substantial increase in prices we succeeded in making the many economic readjustments necessary to the fulfillment of the Four Year Plan. It was exceedingly helpful to make every increase in prices subject to the approval of the Price Commissioner. We have thus made it impossible for any increase in costs to spread throughout the economy, and we have compelled entrepreneurs to consider very carefully the advisability of compensating for an increase in cost in ways that are preferable to an increase in prices.

2. *Individual Techniques*. The great number of special rulings which were issued by the Price Commissioner—there were seven thousand until about the middle of 1940[46]—illustrates the fact that incessantly changing economic conditions often made it necessary to modify or to supplement prices and price relationships prevailing on the base date. These special decrees also testify to the fact that the Price Commissioner used the price-stop as a breathing spell while he developed rules and regulations in accordance with which the various elements determining prices in each industry were to be fixed.

The tremendous number of laws, decrees, regulations, rulings, decisions, circular letters, etc., issued by the Price Commissioner is in itself evidence of the immensity of the task of controlling and determining prices in a modern economy, especially when the objectives are more specific and detailed than merely keeping prices stable. The nature of these announcements is extremely varied, all conceivable methods having been used to regulate prices. Sometimes they affect the whole economy, sometimes one individual seller or buyer. Between the two extremes innumerable variations were developed.

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[46] See Rittershausen, *op. cit.*, p. 421.

In some cases, the regulations provided for a certain latitude on the part of the sellers; in others, they did not allow any flexibility at all. Not only prices, but also margins, commissions, fees, rebates, etc., were determined or formed by the Price Commissioner, and were made the object of detailed provisions. The Price Commissioner did not hesitate to increase prices when his general objectives made it necessary; and he was confronted with this necessity in many instances. Nor was he reluctant to force prices down when the situation demanded it. This was accomplished for numerous commodities by reducing the profit margin, by curtailing certain elements of cost, by encouraging greater economy or higher productivity through rationalization and other devices. That thousands and thousands of laws and decrees were needed as substitutes for the usual operation of the traditional price mechanism, shows how complicated a machine the present economy is, and how complicated an administrative structure is necessary to carry on production, distribution, and consumption within the framework of an economic order determined to maintain private property and profit incentives and, at the same time, eliminate the "automatic" price mechanism.

An attempt is here made to classify the many price rulings of the Price Commissioner.[47] It should be borne in mind that such a classification can never be completely satisfactory since reality is always more complex than the system of classification used to describe it. The classification is as follows:

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[47] The classification given below follows partly the organization used by the Institute of Business Cycle Research *(Vierteljahrshefte zur Wirtschaftsforschung,* XII, 1937-38, 28 ff.*)*.

Price Provisions

- *(a) Rigid price provisions*
    - *(1) Minimum prices*
    - *(2) Maximum prices*
    - *(3) Fixed prices*
- *(b) Flexible price provisions*
    - *(1) Flexible maximum prices*
    - *(2) Price provisions setting maximum and minimum limits (Richtpreise)*
- *(c) Margins for manufacturing and distribution*
    - *(1) Maximum margins for the price of imported commodities*
    - *(2) Fixed margins*
    - *(3) Sliding margins*
- *(d) Rebates for prices*
    - *(1) Maximum rebates*
    - *(2) Minimum rebates*
    - *(3) Fixed rebates.*

(a) *Rigid price provisions.* There were three different types of price regulations in which the area of discretion permitted to sellers of commodities and services was definitely limited or completely suppressed. These regulations can be divided into *minimum prices, maximum prices, fixed prices.* Minimum prices provided a floor below which entrepreneurs could not sell, but above which they had discretion. Maximum prices provided definite ceilings, indicating the highest price at which a commodity could be sold. Entrepreneurs were permitted, however, to sell at lower prices. Fixed prices were prices which were completely rigid, prices which the entrepreneur was not permitted to exceed or undercut. The Price Commissioner seldom set fixed, maximum, or minimum prices at levels which had previously prevailed. Most of these rulings were issued on the basis of a careful cost accounting analysis after consultation with the specific governmental authorities and economic organizations involved in each industry. Sometimes the rulings were very extensive and affected prices charged by the producer, by the middleman, and finally by the retailer. At other times only one or two stages in the process of distribution of a commodity were affected.

(1) *Minimum prices*

(i) Uniform minimum prices for all sellers of a specific commodity within a specific territorial area (e. g., prices charged by compulsory cartels).

(ii) Uniform minimum prices for a group of sellers of a specific commodity (particularly prices for industrial cartels; only the members of cartels are compelled to observe these prices).

(iii) Individual minimum prices for each individual seller of a specific commodity (prices for the members of a calculation cartel; or prices for work of handicraft men established on the basis of uniform methods of accounting).

(2) *Maximum prices*

(i) Uniform maximum prices for all sellers of a specific commodity. The second decree of July 2, 1937, concerning meat and sausage prices may be cited as an example.[48] In the decree maximum prices were set for the sale of meat and sausages to retailers and consumers; in addition, a maximum margin of profit was fixed for the retailer. (See below for maximum margins.)

(ii) Uniform maximum prices for a group of sellers of a specific commodity.

(iii) Individual maximum prices for each individual seller.

(3) *Fixed prices*

(i) For specific commodities and types of commodities which could be unmistakably described, and which were not sold in many different qualities (prices for commodities sold by syndicates; or prices which were fixed by organizations under the supervision of the government).

(ii) Rates for gas, electricity, and transportation.

(b) *Flexible price provisions.* Flexible price provisions were used particularly in those cases in which Germany depended wholly or partially on outside markets which could not be controlled or even influenced.

[48] *Reichsgesetzblatt*, 1937, I, 728.

(1) *Flexible maximum prices.* When flexible maximum prices were issued, the maximum price itself was not set by the Price Commissioner. He merely announced the elements on which the price was to be based, and thereby indirectly set a maximum for the seller. According to the decree of July 15, 1937,[49] concerning the price of foreign commodities, the price at which an importer was permitted to sell imported commodities was to be equal to the price he actually paid, or to the price at which he could repurchase that commodity (which means the price prevailing in foreign markets on the day of his sale), plus additional charges for economically justified cost and profit. According to a further decree of August 10, 1937,[50] the charges to be added for cost and profit were to be equal to the absolute average amount which the entrepreneur was able to add in 1936 in comparable transactions.[51] Since this provision made it impossible to add a margin on a percentage basis to the import price, an increase in prices abroad would no longer automatically lead to higher profits for importers and dealers. As further examples of such flexible maximum prices the Price Commissioner's circular letter of March 12, 1937, concerning the textile industry, and his decree of April 29, 1937, concerning the leather industry may be cited. In both instances the stop price affecting the seller was to be determined by the price on a given base date; this price could be increased or had to be reduced according to changes in certain elements of cost.

(2) *Price provisions setting maximum and minimum limits (Richtpreise).* The Price Commissioner could simultaneously set a maximum and a minimum price. In such cases the price could be changed, but it could not be higher than the maximum nor lower than the minimum. *Richtpreise*, therefore, merely indicate to the entrepreneur how far he can go in either direction in setting the price for his commodities. As an example,

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[49] *Ibid.*, I, 881.

[50] *Ibid.*, I, 884.

[51] For the treatment of imported commodities, see pp. 249-250.

the decree of September 15, 1938,[52] concerning the 1939 prices for timber, may be cited. For timber of a special type and for wood pulp maximum and minimum prices were set. Additional regulations, applicable to timber and wood pulp, specified that the medium price between the maximum and minimum prices was to be the starting point in setting prices. These medium prices were to be valid for timber of a special type, of normal quality, and in normal territory. Prices could differ from this medium price only if the quality of the timber and the territory from which it had to be taken justified another price. In that case, the new price still had to lie between the old maximum and the minimum price.[53]

(c) *Margins for manufacturing and distribution.* Price reductions were frequently secured and price increases prevented by reducing the margin, thus making it impossible for an entrepreneur to pass on certain price increases with which he was confronted. An example may be cited. The second amendment to the decree of November 11, 1938, concerning meat and sausage prices[54] ruled that the maximum retail prices which had been fixed in the decree were not to be changed as long as the maximum wholesale prices for meat were not increased by more than 4 per cent. On the whole, laws and decrees with regard to margins are characterized by a tendency towards increasingly detailed and refined methods.

(1) Maximum margins for the price of imported commodities. According to an amendment to the decree of August 10, 1937, affecting prices of imported commodities[55] an absolute allowance was fixed as a margin, no matter how great the change in import prices.

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[52] *Reichsgesetzblatt,* 1938, I, 1351.

[53] The *Richtpreis* should be distinguished from the *Mischpreis* (mixed price) which Rentrop discusses *(op. cit.,* p. 91*).* He defines *Mischpreis* as an average price used in order to raise prices by easy stages. When a price increase was decided upon, instead of jumping to the new price immediately, a price which was an average of the new price and the old was temporarily established in order to lessen the impact of swiftly rising prices upon consumers. Such a provision was contained, for instance, in the decree of April 29, 1937, concerning leather prices *(Reichsgesetzblatt,* 1937, I, 553*).*

[54] *Ibid.,* 1938, I, 1582.

[55] *Ibid.,* 1937, I, 884.

(2) *Fixed margins, absolute amount* (e. g., in the price regulations for trademark articles).

(3) *Sliding margins.* The absolute value of the margin varies because the margin is defined as a fixed percentage.

(d) *Rebates for prices.*

(1) *Maximum rebates* (regulated by the Rebate Law of November 25, 1933). The rebate in retailing may not exceed 3 per cent.

(2) *Minimum rebates* (in contracts between trade cartels and producer cartels, for example). Minimum rebates were evidently used to protect weaker distributors. Minimum rebates would make it more difficult for a powerful distributor who enjoys many advantages anyhow, to obtain, in purchasing, great price advantages over his weaker competitors. If a minimum rebate must be given, the powerful distributor will find it harder to undersell smaller distributors and to eliminate or greatly curtail competition.

(3) *Fixed rebates* were set according to the quantity bought, the type of purchaser, or the use to be made of the commodity (e. g., used in connection with commodities with fixed prices).

3. *Regulations for Special Industries and Commodities.* The rules and regulations described in the previous paragraph (2) were formulated in a great number of different price provisions, and were supplemented by decrees affecting specific industries or specific commodities. This was particularly true since late in 1938.

(a) *Principles for government orders.* One of the most vexing problems confronting the Price Commissioner was the regulation of prices of commodities ordered by the government. The government became increasingly important as a purchaser of all types of commodities and soon became an extremely powerful buyer in many markets. At the same time many of the industries with which it dealt occupied monopolistic or quasi-monopolistic positions; as the economy approached the limits of its capacity, these industries became even more powerful. During the early years of the Nazi regime all government orders for armaments were based on a cost accounting system developed by the army. The principles were laid down in special procurement regulations *(Verdingungsordnung für Lieferungen an die Wehrmacht)*, which included specific provisions for the supervision of prices.[56]

Surprisingly enough, it was not until November, 1938, more than five years after the beginning of rearmament, that the Price Commissioner laid down comprehensive rules for government orders. On November 15, 1938, he issued a decree and provisions "for the formation of prices for government orders on the basis of cost of production (L. S. Oe)."[57] At the same time the Price Commissioner published a more comprehensive document for government orders called "The Principles for the Price Formation of Public Orders (R. P. Oe)" of November 15, 1938,[58] which included not only the price formation principles of the "Provisions" (L. S. Oe), but all of the other price regulations affecting government orders.

In the "Principles" (R. P. Oe) a distinction was made between government orders for commodities and services which are usually bought by civilian customers as well as the government, and government orders for the special commodities and services which only the government purchases.[59] To the first type of orders, all the general price provisions mentioned in previous paragraphs were applicable. The government, however, was to ascertain in cases where government orders might have resulted in a decline in the cost of production, whether prices could be lowered below the point fixed by the price-stop. The "Provisions" (L. S. Oe), which prescribe a formulation of prices on the basis of cost of production, were applicable to goods and services which were only of interest to the government. In addition, the ordering agencies of the government were advised to use the cost-of-production principle laid down in the "Provisions" (L. S. Oe) whenever they felt that a price set by any of the general price regulations was not justified.

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[56] *Der Deutsche Volkswirt,* XIII (1939), 2463.

[57] *Reichsgesetzblatt,* 1938, I, 1623-1624.

[58] *Mitteilungsblatt des Reichskommissars für die Preisbildung,* 1938, Pt. I, A, No. 39.

[59] Th. Kuhr, "Der volkswirtschaftlich richtige Preis und die öffentlichen Aufträge," *Finanzarchiv,* VIII (1940), 74.

The Price Commissioner ruled that "the cost-of-production principle, which is open to serious objections from the point of view of our general price policy, should be applied only if prices cannot be formed in any other way. The 'Provisions' (L. S. Oe) should be used only if market prices are not available and if negotiations about prices are not successful. The 'Provisions' should be applied in all cases in which prices do not exist because of the newness and uniqueness of the commodities involved."[60] Actual developments, however, did not proceed according to the original intentions of the Price Commissioner. Making it possible for the government to use the cost-of-production provisions under certain circumstances seems to have provided an entering wedge for eventually using it whenever government agencies chose to do so. It was a new step of great significance for Nazi price policy as a whole. Price formation on the basis of cost-of-production became more and more the rule and less and less the exception. This was to be expected, first, because the bulk of government orders went for special commodities which only the government purchased, and, second, because the prices set for other commodities were, according to the "Provisions" (L. S. Oe), subject to a further test by the government in order to determine whether these prices were "economically justified."[61]

The "Provisions" (L. S. Oe) gave detailed specification as to how prices were to be formed when the cost-of-production principle was applied. To ascertain the cost-of-production, the ordering agencies of the government had unlimited authority to examine the enterprises with which orders were placed. This right included authority to rule upon the adequacy of prices, not only on the basis of documents relating directly to cost of production, but on the basis of any information in the balance sheets and profit-and-loss account of the enterprise. The ordering agency was empowered to visit the plant of the enterprise at any time and to ask for any information or documents which were considered essential to regulating the cost of production. To facilitate the examination by the ordering agency, the entrepreneur was compelled to use a special bookkeeping and accounting system. Management as well as salary and wage earners were compelled to answer any and all questions that concerned the business.

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[60] Mitteilungsblatt des Reichskommissars für die Preisbildung, *op. cit.*

[61] Kuhr, *op. cit.*, p. 81.

In addition, to insure the economical conduct of enterprises filling government orders, a number of elaborate provisions had to be obeyed. Detailed information had to be given with regard to the use of raw materials, the raw material scraps and remnants, etc. Minute instructions for determining depreciation allowances were issued. The depreciation account was only to consider declines in the value of that amount of equipment which it could be demonstrated was absolutely necessary to the task at hand, regardless of how much of a depreciation allowance was permitted for taxation purposes. Higher depreciation allowances were subject to the approval of the Price Commissioner. Wage cost was determined by official wage rates. But the Price Commissioner could approve of higher wage costs if he saw fit.

The entrepreneur's profit, which was to be added to the cost of production, was to be established as follows:

(i) Adequate interest on the capital invested in the enterprise was to be permitted, but only upon the normal amount of capital necessary, regardless of the amount of capital actually invested. The prevailing yield at a given time on long-time Federal bonds was considered an adequate interest rate.

(ii) Allowances for the payment of corporate and church taxes, for levies imposed on the entrepreneur to subsidize exports, and for outlays for public charity within reasonable limits.

(iii) A profit margin sufficient to compensate for the entrepreneurial risk which the entrepreneur assumed.[62] If, however, the entrepreneur was responsible for the uneconomical conduct of the business (inadequate equipment or bad management) he could not claim full profit margin. But an additional profit margin could be allowed if he rendered especially valuable services in connection with government orders. This last provision indicates that the Price Commissioner had given himself wide powers, permitting him to fix profit margins quite arbitrarily. There is further evidence of this in that part of the R. P. Oe which authorizes the Price Commissioner to deviate from any of the principles in the R. P. Oe "if political or military considerations make it desirable."

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[62] According to Rittershausen (*op. cit.*, p. 431), the profit margin was usually 1-2 per cent on the invested capital. Since the yield on Federal bonds amounted to about 4-5 per cent, the total profit to be permitted was about 6-7 per cent.

(b) *Price regulations in the building industry.* Price regulations in the building industry were issued in a decree of June 16, 1939.[63] This decree was considered[64] a step toward relieving the rigidity of the price-stop decree by supplementing it with special regulations for individual industries. It was felt that the price-stop decree was unsatisfactory for the building industry because of the absence, in many cases, of comparable prices. The new edict provided that the price-stop decree was thereafter to be applicable only to the raw materials used in building, whereas all other costs were to be calculated according to the new regulations which it promulgated.

The decree concerning the building industry is an important event in the development of Nazi price policy. It is a radical departure from previous decrees, marking the first time that the government assumed the power to specify in detail the methods of determining a price in enterprises with which the government itself had placed no orders. For the first time, the principle of entrepreneurial cost plus adequate profit, previously introduced in the provisions for government orders, was used for the formation of prices between private sellers and private purchasers. The entrepreneur was given detailed instructions as to how cost, depreciation, and profit were to be calculated. In the formation of the final price, only costs justifiable from the point of view of the economical conduct of the business were to be considered (Paragraph 2, Section 3). Similarly, the use of material of any kind had to comply in every respect with principles of economical management. The provisions for depreciation were the same as those in the decree for government orders. The outlay for wages to be included in the total cost of production was to be based on the wage rates, and supplements thereto were to be stipulated in official wage agreements. Higher wages were dependent upon special permission from the Price Commissioner. According to Paragraph 5, Section 1, of the Building Industry Decree, general entrepreneurial expenses and profits could be included in the final price only as margins added to the total cost. These margins were to be "adequate" and could be determined by the Price Commissioner (Paragraph 8).

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[63] *Reichsgesetzblatt,* 1939, I, 1041.

[64] *Vierteljahrshefte zur Wirtschaftsforschung,* XIV (1939-40), 57.

(c) *Apartment rents and real estate prices.* Ever since the end of the last war, the supply of apartments in Germany had not been sufficient to meet the increasing demand. The shortage continued in spite of large building activities before and after Hitler came to power. In 1938, when limited supply of building material and manpower led to a decline in the building of private apartments, conditions with regard to apartments became even more difficult.

Because of the chronic shortage of apartments, the Price Commissioners had to face the problem of rents at an early date. As early as November, 1934, the former Price Commissioner considered it necessary to counteract the tendency toward increasing rents. On April 20, 1936, the new Price Commissioner issued a decree to strengthen the position of tenants in bargaining with landlords.[65] Further decrees and circular letters were issued by the Price Commissioner on November 30, 1936,[66] September 27, 1937,[67] and October 9, 1937.[68]

Comprehensive provisions affecting rents were formulated by the Price Commissioner in a circular letter of December 12, 1937.[69] The Price Commissioner realized, as he did in connection with commodity prices, that the price-stop affecting rents could be enforced for only a short time before modifications would become necessary. A distinction was made between supervision and formation of rents, and all rents were fixed on the level of November 30, 1936. Reductions and increases of rents were both provided for. Under no circumstances was the legal rent for old apartments *(Altwohnungen)*[70] to be exceeded. In the case of newly constructed apartments *(Neubauwohnungen)*,[71] increases in rents which had taken place before the announcement of the price-stop could be declared illegal. If a tenant requested it, all increases in rents since January 1, 1935, were to be re-examined by the Price Commissioner or his subsidiary Boards. A reduction in rent could be ordered whenever it could be shown that interest rates had declined, or that the present landlord had purchased the building at a price considerably below the cost of production. This restriction, however, was not to make impossible an adequate income from the house. The landlord was entitled to a yield of 5-6 per cent on capital invested. Rents were to be raised when it was considered "economically justified," e.g., when higher rents seemed to be the only way to avoid economic difficulties for the landlord. Increases were to be approved as seldom as possible, in fact, only when the purpose for which the apartment was rented was changed, or when improvements such as the addition of electric lights, elevator, bathroom, etc., were made, or when the landlord was subject to new charges.

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[65] *Reichsgesetzblatt*, 1936, I, 378 and 380.

[66] *Ibid.*, 1936, I, 956.

[67] *Ibid.*, 1937, I, 1127.

[68] *Völkischer Beobachter*, Oct. 19, 1937; cited by F. Lütge, "Die neuen preispolitischen Eingriffe auf dem Wohnungs-und Bodenmarkt," *Jahrbücher für Nationalökonomie und Statistik*, CXLVII (1938), 443 ff.

[69] H. Engelsing and A. Glissmann, *Preisbildung und Preisüberwachung* (Berlin, 1939), IV, F., p. 1.

[70] *Altwohnungen* are apartments which are subject to the Reich Rent Law and for which rents were stipulated on the basis of the pre-1914 rent (so-called *gesetzliche Miete*).

[71] *Neubauwohnungen* are apartments for which a legal rent *(gesetzliche Miete)* does not exist.

The legal provisions for the protection of tenants were changed several times. The last decree was issued on April 19, 1939,[72] and amended on June 24, 1939.[73] According to this decree, the tenant was entitled to contest a notice if he had not given any cause for eviction, and if the change of apartments would be an economic burden to him. If the landlord insisted that he move, final decision was to be made by the Board for the Supervision of Prices. The Board was empowered to void the notice. If, however, the landlord was willing to compensate the tenant for the cost of moving and the other economic disadvantages, the Board could rule that the notice was valid. These provisions refer to commercial as well as residential tenants and landlords.

Not unrelated to the problem of rent supervision was the problem of supervising the formation of real estate prices. The government was afraid that the large supply of funds available at certain times would find its way into the real estate market. As a result, the Price Commissioner issued decrees on October 6, 1937,[74] and on July 8, 1938.[75] The last decree provided that the

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[72] *Reichsgesetzblatt*, 1939, I, 799. [73] *Ibid.*, p. 1091.

[74] *Deutscher Reichsanzeiger*, 1937, No. 238; see also circular letter of the Price Commissioner of Oct. 6, 1937 (Engelsing and Glissmann, *op. cit.*, II, A, p. 20).

[75] *Reichsgesetzblatt*, 1938, I, 850; see also circular letter of the Price Commissioner of July 8, 1939 (Engelsing and Glissmann, *op. cit.*, II, A, p. 28).

Boards for the Formation of Prices were to be informed by the tax authorities of any desired change in the ownership of real estate. Any such change was subject to the approval of the Boards. The Price Commissioner's decree of October 6, 1937, held that the Boards were not only supposed to avoid any unjustified increase in real estate prices but were also to reduce prices which were too high when the price-stop went into effect on October 17, 1936. The supervision of real estate prices was considered necessary in view of the effect of real estate prices on rent. The supervision of the prices of potential building sites was considered especially important. Prices for these lots were no longer to be determined by supply and demand, but were to be fixed with "economically justified" rents ever in view.

(d) *Prices for imported commodities.* Since the Price Commissioner had no control over prices outside of Germany, the regulation and formation of prices for imported commodities proved a rather difficult problem. They had to be accepted unchanged. Yet price movements outside of Germany might have jeopardized the carefully established price system within the country. Moreover, the limitation of imports and the necessity for accumulating raw materials would tend to create a chronic shortage of certain imported commodities, the demand for which would be a constant pressure for illegal price increases. Very early in the development of the Nazi economy, in its decree of September 22, 1934,[76] the government dealt with this problem. More detailed and refined regulations later became necessary. The basis for all further provisions was the decree of July 15, 1937, concerning the price of imported commodities.[77] The new decree was much more comprehensive than the earlier ones, adding agricultural commodities to those subject to this special type of price formation. The price in internal trade of imported commodities had to be based on the price which the importer actually paid. The Price Commissioner, however, was authorized to rule that commodities could be sold at a price based on the price prevailing in foreign markets on the day on which the domestic sales were made, instead of at a price based on what the importer actually had paid. The commodities to which such permission applied were to be published in the official gazette, the *Reichsanzeiger.* On the whole, this type of pricing was applicable only to the immediate customers of the importers. Contrary to the earlier decree of 1934, according to which "customary" trade and profit margins could be added to the base price, the new law allowed only "economically justified" profits and trade margins. Except for special provisions which were to be issued later by the Price Commissioner, the absolute trade and profit margins prevailing in 1936 were to be used for calculating prices for imported commodities. The Supervisory Agencies were expected to co-operate closely with the Price Commissioner especially in regulating prices of imported commodities. The decree threatened severe penalties for violations and evasions.

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[76] See p. 221.

[77] *Reichsgesetzblatt,* 1937, I, 881.

Levies and Subsidies. The chief purpose of Nazi price policy, it will be recalled, was maintenance of price stability. The forcible reduction of prices of some commodities was often required when price increases for others became mandatory, or the reduction of certain elements of cost became necessary when other elements entering into the price of a particular commodity could not be kept down. At times, in order to hold or reduce prices, entrepreneurs were subsidized by receipts from special levies or by normal treasury funds. Information about these practices is, of course, rather scanty. One of the earliest and best-known examples was the subsidizing of export trade out of funds accumulated through a special levy on all industries. Begun in 1935, it was repeated regularly in later years. Agriculture, originally not subject to the levy, was later included. Although this levy was not labeled a price policy measure, the policy definitely served to reduce the prices of all export commodities. Levies and subsidies were also frequently resorted to in order (1) to equalize cost differences within specific industries, differences traceable to variations in size, efficiency, and location, (2) to eliminate local and seasonal price differentials, and (3) to keep unavoidable increases in cost from raising the prices charged to the final consumer. This was particularly true in agriculture, which will be discussed in greater detail in the following section. It was not uncommon to subsidize one branch of agriculture at the expense of another, or even a branch of agriculture at the expense of a nonagricultural industry, or to provide agriculture with certain types of equipment at prices reduced at the expense of some outside industry, as was done in the case of potash, artificial fertilizer, and electrical equipment which were provided at lower prices at the expense of the potash, chemical, and electric power industries.

Agriculture

The problems confronting the Nazi government in its agricultural price policy were considerably different from those in industry. Germany was an importer of agricultural products and an exporter of industrial commodities. As an exporter, she was competing in foreign markets, which complicated her industrial price problem. Agricultural price authorities, on the other hand, were confronted with circumstances which were indigenous to the agricultural sector of the economy. Prices in agriculture affect the cost of living much more directly than do prices in industry. Moreover, the fluctuations in agricultural production raise problems which do not exist for industry. All these factors must be considered in understanding the differences between Nazi price policy in agriculture and industry.

The main purpose of Nazi agricultural policy is easily discernible. The government was anxious to free Germany as much as possible from dependence upon foreign markets for her food requirements. This meant that the pressure for changes in the price relations among various commodities was much more immediate than in industry. It also meant improving farm income in order to stimulate production. But the rise in income was not to be allowed to conflict with the government's supreme general objectives of avoiding inflationary processes at all cost, and of avoiding any increase in the cost of living which might have jeopardized the government's policy of keeping wage rates unchanged. To a large extent, therefore, the increase in farm income was achieved at the expense of processors and distributors of agricultural commodities, e. g., the dairies, the milk trade, the cattle trade, the meat trade, the grain trade, the egg trade, the butchers, etc.

The number of commodities in agriculture was much smaller than in industry; the conditions of production, distribution, and sale were more easily surveyed; hence, the organizational problems of agriculture were well under control at an early date. While a really comprehensive price policy in industry was not started until the autumn of 1936, agricultural prices were brought under strict control as early as 1933. As might be expected, agricultural price policy was intimately tied up with the government's planned economy in farm products, designed to co-ordinate production, distribution, consumption, and the accumulation of stock piles in agricultural commodities. Ever since 1933 authority to control prices had been vested in the Reich Food Estate. This was formally changed with the appointment of the Price Commissioner in 1936. Even he, however, limited himself to exercising his power in individual instances only, and delegated his authority to the Reich Food Estate, whose rulings were subject to his approval.[78]

Agricultural price policy was chiefly characterized by two tendencies: an increasingly rigid fixing of prices, and increasingly refined methods of pricing.

Price Fixing. Two general tendencies characterized the evolution of price fixing in agriculture. First, the policy which started with price provisions setting maximum and minimum limits *(Richtpreise)* eventually led to the introduction of fixed prices. Second, most price regulations first affected only one stage in the life of a commodity, usually the stage of original production; it later became necessary to extend price regulations over many more stages of production and distribution.

The whole development from the fixed flexibility pricing device to maximum prices and then to fixed prices could be observed in livestock. As a basis for pricing in slaughter houses, fixed flexibility prices for pigs were introduced in the autumn of 1934; for the bull calves, in April, 1935. Since prices were rising quickly after the autumn of 1935, fixed flexibility pricing gave way to maximum pricing and finally to fixed prices.

The price provisions for that portion of milk that dairies used for butter, cheese, etc., followed a different course. The minimum and fixed flexibility prices which formerly existed were replaced by prices based on cost of production. The authorities were aiming at a certain uniformity within each district. The prices which the dairies were permitted to pay to the farms varied with their size, their technical equipment, their capital structure, the extent to which their productive capacity was employed, seasonal fluctuations in the production of milk, the type and quality of the product, the methods of distributing, etc. The dairies themselves were subject to rigid supervision and control. They had to report every month in accordance with a carefully prescribed accounting system. An attempt was made to ascertain whether they managed their business economically, whether their overhead costs were reasonable, whether they amortized their debts at a proper rate, whether their estimated depreciation was exorbitant, etc. The entrepreneurial profit was limited "to a size defensible in the National Socialist State."[79]

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[78] Rittershausen, *op. cit.*, pp. 437-438.

The necessity of extending price regulation from a single stage in the life of a commodity to succeeding stages in its production and distribution was the other discernible tendency in the price-fixing development in agriculture. Specific expressions of this tendency varied from commodity to commodity. A single example will suffice to illustrate the development. On October 12, 1938, the following regulations were introduced with regard to butter: fixed prices for sales from dairies to wholesalers; maximum prices for sales from dairies and wholesalers to retailers; maximum prices for sales from retailers to consumers and for sales from farmers to retailers and consumers.[80]

Refined Methods of Pricing. As price regulations were extended to apply to the various stages between production and consumption, it became necessary to refine their provisions in order to adapt the price system to the continually changing conditions of production and consumption. The need for such adaptation grew primarily out of differences in quality or use, out of necessities created by seasonal or territorial variations, and out of the necessity to equalize price differences.

1. *Differences in Quality or Use.* The price fixed for grain applied to average quality. For differences in quality, the price could be changed in either direction. The price regulations for potatoes varied for potatoes for human consumption, potatoes for

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[79] Mehrens, *op. cit.*, p. 249.

[80] *Reichsgesetzblatt,* 1938, I, 1398.

fodder, potatoes for liquor factories, and further different types of potatoes for human consumption.[81] The regulations for farm, wholesale, and retail prices of butter distinguished five different grades of butter.[82] Price classifications for the differences in the quality of livestock, meat, and meat products proved particularly difficult. Maximum prices for hogs were first graduated according to territories, not to qualities (April 20, 1935). In October, 1935, a classification according to quality was added. Later this classification was further refined. Wholesale and retail prices for meat were also classified according to quality. The maximum retail prices for hen and duck eggs were divided into prices for domestic, foreign, and cold-storage eggs, and each of these classes was further subdivided into five groups according to weight.[83]

2. *Seasonal and Territorial Variations.* Free market prices reflect changes in supply and demand due, among others, to seasonal fluctuations. When prices were no longer subject to market forces, it was felt that they should still be adjusted to such variations, even though they could not be changed as frequently as market prices change. The price authorities in Germany made these adjustments in a wide variety of ways.

Prices for grain were fixed only once a year, shortly before the beginning of the harvest season. The expected quantity and quality of the harvest and the assumed demand for agricultural products were duly considered. Prices had to be changed during the year, first, in order to cover the cost of storage (interest, insurance, deterioration, etc.); second, in order to influence the sellers of grain one way or another. (If monthly supplements to the price were considerable, the farmers, the trade, and the mills were likely to keep grain in storage for some time. When the harvest was poor, smaller supplements might result in quicker delivery or in a decline in the use of grain as fodder.) Between 1937 and 1939 potatoes sold at five different prices, distributed over the seasons of the year. The number of price groups was increased to seven in 1939.[84] Early in 1937 sliding prices for hogs were introduced in order to adapt supply to demand more adequately. Hog prices were reduced from January until May, and supplements were paid from July to October.[85] The price authorities attempted to adjust prices of eggs to the rhythm of production, although it proved quite difficult to decide exactly when the necessary changes should be made.[86] Prices were changed in the spring and autumn. Consumer maximum prices for domestic hen eggs were divided into a summer price from February 2 to November 15, and a winter price from November 16 to January 31. For foreign and duck eggs, a summer price prevailed from April 1 to July 31; and a winter price, from August 1 to March 31.[87] Farm and wholesale prices of all eggs varied accordingly. The trade margin for distributors was larger during the winter than during the summer in order to compensate for the declining winter turnover.

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[81] *Ibid.*, 1939, I, 1422.

[82] *Ibid.*, 1938, I, 1938.

[83] *Ibid.*, 1938, I, 1564, and 1939, I, 993.

[84] *Ibid.*, 1939, I, 1422.

It was also necessary to adapt prices to the problems created by differences in various territories. The fact that surplus areas, for example, were frequently great distances from deficit areas often made commodities more expensive because of cost of transportation. In a free market, adjustment to such territorial factors expresses itself through variations in prices from area to area. Regulated prices may not be quite as sensitive to these territorial differences, but the price authorities continued to apply the free market principle of distinct prices for various areas. Grain prices, fixed once a year, were graduated to increase slowly from East to West. They were regulated so that the movements from surplus to deficit areas would take place smoothly. This policy was refined on the basis of very detailed transportation studies made by the Institute for Business Cycle Research and the Central Association for Grain.[88] After a certain time the number of different price areas for wheat was increased from 11 to 20; for rye, from 9 to 19. The four price areas for potatoes were increased to five in 1939. For livestock three different price areas were distinguished: prices at the farm, prices at the wholesale livestock market, and prices at the point of final destination. Livestock dealers had to pay the farm price; packers and dealers, the price at the point of final destination. As far as wholesale market prices were concerned, several price areas were distinguished. Prices at the final destination were fixed so as to stimulate shipments over wide areas. As for milk, there was no attempt to fix uniform prices throughout the Reich. Prices were adjusted to the difference in the conditions of production and demand. Eventually a considerable leveling off of price differences appeared in the various areas, but essential differences continued to exist.

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[85] See Mehrens, *op.cit.*, p. 204.

[86] *Ibid.*, pp. 305-306.

[87] *Reichsgesetzblatt*, 1939, I, 993.

[88] See Mehrens, *op. cit.*, pp. 52, 58, 59.

3. *Equalization of Price Differences.* Price administration by the government must attempt to maintain desirable price differences and, on the other hand, to erase those differences in price which are in some way harmful. It was often essential, for example, to compensate for the differences in freight costs. When prices were determined for grain, they were, as was mentioned above, fixed for an entire year. If difficulties arose and unexpected shortages had to be met by purchasing grain from distant areas,[89] freight subsidies were granted or direct deliveries from the Reich Grain Board were ordered.

Freight equalization was established for butter.[90] Wholesalers had to pay to the equalization board an amount up to 3 reichsmarks for each 50 kg. This charge provided funds with which to indemnify wholesalers for the differences in transportation costs between dairies and wholesalers. When the cost of transportation was below 3 reichsmarks, wholesalers paid the difference to the equalization board. When it was above 3 reichsmarks, the equalization board made up the difference. This arrangement was calculated to unify the cost of transportation throughout the country. Similar provisions were in effect for onions for human consumption, and for eggs.[91]

In addition to equalization payments for the cost of transportation, equalization payments were made either to favor one commodity at the expense of another similar commodity (e. g., to favor rye at the expense of wheat) or to increase the accumulation of supplies in a given industry (e. g., the fruit canning industry),[92] or to stimulate exports (e. g., hops).[93] If we take the first case, we find that in 1935 in order to avoid an increase in the price of rye bread which might have resulted from increased prices of rye, wheat mills contributed to a fund which was used to pay part of the cost of rye flour. The wheat mills were permitted to collect for their contribution to the rye fund by increasing the prices of their flour.

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[89] *Ibid.*, p. 116.

[90] *Ibid.*, pp. 263 f.

[91] *Ibid.*, pp. 160, 303.

[92] *Ibid.*, p. 166.

[93] *Ibid.*, p. 327.

4. *Price Reductions.* The objective of Nazi agricultural price policy, increasing farm production by increasing farm income, had to be accomplished without raising the consumers' cost of living proportionately, and was managed largely at the expense of the wholesalers, the retailers, the mills, the butchers, the bakers, and others. When it could not be accomplished at the expense of the middlemen, much more complicated methods of price reduction were developed in order to forestall increases in consumer prices. Certain branches in agriculture which operated rather profitably, the sugar industry, for example, had to pay levies which were used to reduce prices of other commodities. In 1933 a quota system for margarine and an excise duty on fat were introduced. In order to avoid an additional burden upon the poorest parts of the population, and in order to provide them with sufficient quantities of margarine in spite of the declining production, special cards were introduced to enable them to purchase margarine at deliberately reduced prices. The reduced prices were financed by about 130 million reichsmarks raised annually by the excise duty on fat.[94]

Similar to the margarine cheapening device were the attempts to lower prices for marmalade by using funds raised by a duty on sugar. This was meant to be at least partial compensation for the shorter and more expensive supply of fat. The sugar and beer-brewing industries had to share the cost of still another attempt to reduce consumer prices. When the mills were unable to carry the burden of increased rye prices in 1937-38, and it was not considered advisable to increase the price of rye flour, the sugar and beer-brewing industries had to carry the burden of additional cost.[95] Also important were the devices used to curtail prices for some materials needed by agriculture. Action was taken to reduce the price for potash and artificial fertilizer by 30 and 25 per cent, respectively, thus helping agriculture at the expense of the chemical and potash industries.[96] A similar rule, to reduce prices of electrical equipment needed by agriculture, was promulgated by the Price Commissioner in his decree of June 16, 1939.[97] Beginning July 1, 1939, all enterprises which owned or administered the production, distribution, or sale of electric power had to raise 35 million reichsmarks annually for a period of five years. This fund was used for the reduction of prices of all kinds of electrical equipment bought by agriculture. The levy on each enterprise was calculated on the basis of KW electric power produced or sold. As far as collections, penalties, etc., were concerned, the levy was considered a regular tax.

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[94] *Ibid.*, p. 236.

[95] *Ibid.*, p. 331.

[96] *Reichsgesetzblatt*, 1937, I, 376.

Price Policy Since the Outbreak of War

The problems that required solution after the outbreak of war were, in principle, the same as those which the Nazi government had been handling for some time. Changes in emphasis and intensity were required, but the fundamental issues and problems were familiar. This was as true of price policy as it was in most other fields of economic policy. One of the high officials of the Price Commissariat maintained upon the outbreak of war that the basic principles in accordance with which the price policy had been developed since 1936 did not need any changing; general conditions within the economy were the same.[98] The Price Commissioner was probably correct when at about the same time he claimed that the very fact that German institutions and agencies responsible for price policy had become intimately acquainted with their work in the years preceding the war, gave the Nazis a distinct advantage over their enemies.[99] If there was any significant difference at all between the policy of the agencies supervising and forming prices before and after the outbreak of the war, it was the fact that price policy during the war was even more rigorous. Otherwise, objectives and techniques remained the same for quite some time. After about two years of war, certain changes in technique occurred, but they did not affect the basic principles upon which Nazi price policy had been developed.

Price policy during the war was primarily directed at keeping the purchasing power of the currency in domestic trade stable, at facilitating the financing of the war through low prices, and at disturbing the relationship between wages and the cost of living as little as possible.[100] The many decrees and regulations concerning prices issued after August, 1939, were hence characterized by three major tendencies: the attempt to prevent all price increases, the continuation of the struggle for price reductions, and the supervision and curtailment of profits. The government, realizing from the first day of the war that the danger of inflationary price movements was far greater than before, was determined to fight all price increases vigorously. Instead of merely regulating the final price of a commodity, it pursued more energetically a previously instituted policy of closely watching every single stage in the production of a commodity so as to be in a better position to influence the individual elements which entered into the determination of final price. Moreover, the Price Commissioner increased his efforts for price reductions, particularly by devoting special attention to the problem of profits. Already before the outbreak of war, the Commissioner had found it necessary to regulate the rate of profit in industrial enterprises. This policy found an explicit expression in the decrees of November, 1938, concerning government orders which were discussed before. With the beginning of hostilities, the Price Commissioner must have felt that even more stringent regulation of profits was necessary and justified. First, regulating the profit rate seems to have been one of the few remaining methods of effectively reducing prices or counteracting price increases. Second, experience must have demonstrated that under the impact of the mounting shortages of war there was bound to be a tendency for profit margins to increase. Finally, there were social considerations, especially the possible effect of huge profits upon morale.

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[97] *Ibid.*, 1939, I, 1044.

[98] E. Flottmann, "Preisbildung und Preisbestimmungsgruende," *Der Deutsche Volkswirt*, XIV (1939), 306.

[99] Joseph Wagner, "Der Preis als sozialer Faktor," *Der Deutsche Volkswirt*, XIV (1939), 331.

General Price Policy Provisions during the War. Even in the earliest decrees and pronouncements, those issued immediately after the outbreak of war, the previously mentioned tendencies and objectives are clearly discernible. The decree of September 4, 1939,[101] the "War Economy Decree," has a chapter dealing with the problem of prices during the war. This chapter is introduced by Paragraph 22, which reads: "Prices and fees for commodities and services must be formed on the basis of principles appropriate to a war economy" ("Grundsätze der kriegsverpflichteten Volkswirtschaft"). This translation is not wholly satisfactory. But as is so often true of Nazi phraseology, the paragraph can neither be adequately translated nor significantly interpreted. Its very ambiguity may be part of deliberate policy to insure as wide an administrative leeway as possible. This overall provision is comparable to a similar provision in the tax system to the effect that tax laws are to be interpreted according to the National Socialist Weltanschauung, a provision designed primarily to give the Collectors of Internal Revenue complete discretion in interpreting tax laws. In the case of the price provision issued with the outbreak of war, one can probably quite safely infer that it was calculated to augment the extreme powers already in the hands of the Price Commissioner.

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[100] *Halbjahresberichte zur Wirtschaftslage,* XIV (1939-40), 120.

[101] *Reichsgesetzblatt,* 1939, I, 1609.

Early pronouncements from authoritative quarters[102] and subsequent practices[103] make it quite clear how the Price Commissioner intended to use his new power. That a declining price is even more welcome than a stable one was the fundamental principle of wartime price policy. It was contrary to the "principles appropriate to a war economy" to include in price calculations any profit margin for general war risks, such as the danger of interruptions in business because of enemy action, or because of economic warfare. Neither was the accumulation of reserves for economic readjustments after the war to be permitted. Nor were price increases to be used to compensate for destruction of equipment or inventories by enemy action. Instead, where the need to compensate for war losses was recognized as genuine, assistance was to be provided through grants of public funds.[104] Prices were not to be raised to compensate for insurance charges that would cushion the entrepreneurs' war risk. Entrepreneurs were supposed to carry the risk of war loss themselves, as did all other citizens. Otherwise, they would enjoy special privileges which could not be justified.

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[102] *Vierjahresplan*, III (1939), 1061, and *Der Deutsche Volkswirt*, XIII (1939), 2390.

[103] For a detailed analysis of the first twenty months of the war, see William Schütz, "Preise in der kriegsverpflichteten Volkswirtschaft," *Zeitschrift der Akademie für Deutsches Recht*, VIII (1941), 169 ff.

[104] The decree of December 30, 1939, concerning rents is a case in point. It provided for subsidies from public funds whenever a decline in turnover made the full payment of rents impossible to wholesale or retail traders. The objective was to keep prices as stable as possible and to impose the war risks on the community as a whole. See *Halbjahresberichte zur Wirtschaftslage*, XIV (1939-40), 120.

Actions against Price Increase. Paragraph 24 of the September War Economy Decree was symptomatic of the government's firm resolve to avoid price increases at all costs. "An increase in the cost of production resulting from higher expenditure for raw materials, freight rates, or other cost elements due to a fuller use of capacity, cannot be passed on in higher prices unless the increase in outlay is consistent with the economic conduct of the business." A high official in the Price Commissariat interprets this provision in somewhat the following manner.[105] Even the difficulties and emergencies of a war should not make an entrepreneur forget that he must act as economically as possible. He must never act on the premise that, at such times, money is of no concern. If he encounters difficulties in procuring the necessary raw materials and semimanufactured goods, he must get them as economically as possible.

At this time, the price-stop decree of November 26, 1936, was theoretically still in force. But in a special ruling of September 9, 1939, the Price Commissioner made it clear that the maximum prices fixed by the price-stop henceforth existed in name only.[106] Whenever it was felt that the price-stop price was too high for existing conditions, or when the increased output resulted in a considerable decline in unit cost, prices were reduced below the price-stop price by invoking Paragraph 22 of the War Economy Decree. Only in exceptional cases were price-stop prices still legally enforceable maxima.[107] It was hoped, moreover, that the standardization of production for the army, and the supervision of cost accounting by the army, would counteract tendencies toward price increases. Similar effects were expected from the rationing of all necessary consumer goods since the beginning of the war.

The great number of preventive and punitive measures taken since the summer of 1940 suggests that, in spite of the efforts of the Price Commissioner, the pressure for higher prices steadily increased after the outbreak of war. This is not at all surprising. In addition to working under conditions of increasing costs,[108] the entrepreneur had to bear the burdens imposed by the Price Commissioner's determination to have him absorb all increases in costs resulting from war conditions. The Price Commissioner's circular letter of November 6, 1940, concerning the administration of the price provisions in the War Economy Decree, seems to have been required because of the increasingly acute pressure upon prices to rise.[109] In that letter the Price Commissioner stated that the price discipline had frequently suffered a great deal, and that violations of price decrees were accumulating. Proof of increasing costs was no longer to suffice as justification for an increase in prices, he added. In a war economy a manufacturer must temporarily forego his usual profit and even consume some of his reserves. Every single businessman in Germany was legally obligated to keep his prices in line with conditions created for the general public by the war. It is in terms of these obligations that he was to judge whether his prices were justified in each individual case. Any price that was unacceptable by these standards, or considered too high for war conditions, was forbidden. This same letter of the Price Commissioner made it clear that Paragraph 22 of the War Economy Decree was to be considered the basic document regulating price formation during the war period. In an earlier circular letter of April 3, 1940, the Price Commissioner had emphasized that, as a general rule, any increase in cost would hereafter have to be borne by the enterprise in which it originated.[110] In this new circular letter the Price Commissioner went further than in the decree of April 3, 1940, for not only was any increase in price forbidden, but notice was given that, wherever possible, an attempt would have to be made by the entrepreneur to reduce prices.

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[105] *Vierjahresplan,* III (1939), 1062.

[106] *Der Deutsche Volkswirt,* XIII (1939), 2390, and XIV (1939), 236.

[107] *Ibid.,* XIII (1939), 2463.

A decree of November 8, 1940, concerning the application of the price-stop decree,[111] listed specific provisions by which prices were to be established when the price-stop rules were not applicable. The acceptable prices for the various elements of cost entering into the determination of the final price were to be those in force on the base date of the price-stop. If some elements in the cost of production rose, specific provisions were to be observed in calculating costs. The rate of profit was not to exceed the rate which actually prevailed on the base date; profits were not to be allowed to mount when costs of production increased. In addition to the regular profit, the entrepreneur was granted a return on his capital (as compensation for the entrepreneurial risk) and an allowance for his expenditures on the corporate tax, public charity, and the levy to increase export trade.

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[108] *Ibid.*, XV (1940), 251.
[109] *Wirtschaftliche Mitteilungen der Deutschen Bank*, 1940, No. 12.
[110] *Der Deutsche Volkswirt*, XV (1940), 334.
[111] *Ibid.*, XV (1940), 368.

A further attempt to force prices down can be seen in Paragraph 23 of the War Economy Decree. It forbade entrepreneurs to deduct in their cost accounting expenditures for social purposes which were not legally compulsory, or expenditures which were not customary in the particular business and which violated principles for the economical conduct of the business.

In a later decree of November 23, 1940, the Price Commissioner ruled that all prices and documents indicating the factors that entered into the formulation of prices had to be kept on file. If any question arose as to the legitimacy of any given price, it was to be settled with reference to the price documents.

Special attention was given to prices administered by private organizations, such as cartels, syndicates, trusts, and other monopolistic and semimonopolistic enterprises. Supervision of all such private organizations administering prices harked back to the early days of the Nazi regime.[112] Paragraph 25 of the War Economy Decree referred to these privately administered prices. The provisions, according to the interpretation by a high official of the Price Commissariat,[113] were significant because henceforth prices administered by private organizations had to be based on the cost of production of a medium cost enterprise. No longer would the cost of production of the least efficient producer determine the price. Industrial units, which experts would not consider competitive under normal conditions but which were used only because of a shortage in capacity, were not to be considered in calculating the medium cost of production.

A very comprehensive decree of November 23, 1940,[114] recodified previous provisions concerning monopolistic and semimonopolistic organizations. It evidently became necessary because of the tendency of such institutions to abuse their power when the economy was confronted with war shortages and war difficulties. In a detailed analysis of the new decree, a competent government official claimed[115] that the Price Commissioner, as a general rule, recognized privately administered prices, but that the new decree became necessary in order to exert an educational influence, and in order to make impossible any misuse of economic power. Here again a provision can be found which is so general in character that it gives the Price Commissioner a tremendous amount of discretionary power. The Price Commissioner was to withdraw and withhold certification of all privately administered prices which did not "conform to the economic and ethical attitude of National Socialism, and to the price decrees." When minimum prices were necessary for the economy, they were not, if possible, to be set unless maximum prices were fixed simultaneously. Otherwise, there was danger that the economic power of such private organizations would express itself in unnecessarily high prices. Since under such conditions differential profits can be made by the more efficient producers, the Price Commissioner specified precisely how these extra earnings were to be used; he might, for example, insist that they be used for the improvement of the business or for future price reductions.

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[112] See pp. 219-220.

[113] *Vierjahresplan*, III (1939), 1062.

[114] *Reichsgesetzblatt*, 1940, I, 1573.

In spite of all these attempts to avoid price increases, they could not be avoided altogether, something the Price Commissioner must have known all along. His repeated statements and warnings against price increases were designed to discourage them and to keep them within narrow limits. As far as we can gather from available literature, price increases seem to have been approved for either of two reasons. Approval was sometimes given because of a genuine and unavoidable increase in cost of production too large to be borne completely by the entrepreneur, and because of price increases for import commodities, substitution of synthetic or other domestic goods for import goods, or increase in freight cost because of detours in transportation. This, according to a semiofficial statement,[116] was the reason for the majority of price increases. Increases were also granted to stimulate production or consumption. Thus, for example, the price of second-hand rubber and rubber waste was raised "to give the second-hand trade a keener incentive for complete utilization of stocks of used rubber."[117] Similarly, a number of agricultural prices were increased.[118]

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[115] *Der Deutsche Volkswirt*, XV (1941), 656 ff.

[116] *Frankfurter Zeitung*, April 13, 1941; see also *Der Deutsche Volkswirt*, XV (1941), 611.

The Struggle for Price Reduction and for Limitation of Profits. The first major attempt to achieve a reduction in prices was made by extending the applicability of the decree of November, 1938,[119] for government orders. The right to extend this decree was deduced from the oft-quoted Paragraph 22 and Paragraph 26 of the War Economy Decree,[120] which were interpreted to mean that government ordering agencies could request application of the cost-of-production principle much more frequently than the original decree seemed to permit. It was felt that even in the case of rigidly fixed prices the government ordering agencies had authority to request delivery on the basis of the cost-of-production principle. By a decree of October, 1940,[121] the cost-of-production principle was made the basis of calculation for government orders in all industries except agriculture. What was originally the exception now became the rule. A few months before, on May 25, 1940, very detailed regulations had been issued for cost accounting where government orders were concerned. It is reasonable to assume that this development was intended to bring pressure on prices for government orders, especially if we recall the many announcements by public officials during the war insisting time and again on the necessity of keeping the cost of war as low as possible.

In addition, pricing principles formulated in connection with government orders were extended to the relationship between the entrepreneur and his *private* customers. We have seen, for example, that before the outbreak of war the Price Commissioner had applied the cost-of-production principle to prices in the building industry. During the war similar provisions were issued for other industries, the decrees of September 6, 1939, for the formation of prices in the shoe industry,[122] for example, and the decree of January 27, 1940, for the formation of prices of cotton goods.[123] Decrees of this kind contained detailed cost accounting systems analyzing each element of cost, and on the basis of these accounting practices prices were ultimately formed. In the shoe industry, for instance, prices were established in approximately the following way: raw material plus wages (not higher than on December 31, 1938), plus a percentage allowance for general overhead (as of the level of 1935), plus a percentage allowance for cost of distribution (as of the level of 1935), plus turnover tax, plus a profit of 6 per cent on this turnover. The decree of October 6, 1939,[124] affecting the formation of prices for soap and cleansers is a further example of the extension of the cost-of-production principle to relationships between private entrepreneur and private customer. It differed in one important respect, however, from the usual regulations issued to those who bid for government orders. The latter could be compelled, and actually were compelled, to sell their commodities and services to the government at prices which were determined on the basis of the specific rules laid down by the Price Commissioner in the L. S. Oe. In the relationship between private entrepreneur and private customer, these price-determining rules were supplemented by a system of rigidly prescribed cost accounting, combined with a system of fixed or maximum prices. Where maximum prices were fixed, it was evidently hoped that some of the more efficient entrepreneurs would be able to sell for less than the maximum prices. If these entrepreneurs reduced prices in an attempt to increase sales, it would compensate for price increases in other parts of the economy.

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[117] Singer, *op. cit.*, LI (1941), 204.

[118] *Ibid.*, LII (1942), 196-197.

[119] See p. 243.

[120] M. Sellmann, *Der Deutsche Volkswirt*, XIV (1939), 240-241.

[121] *Ibid.*, XV (1940), 91.

[122] Rittershausen, *op. cit.*, p. 424.

Inseparable from the problem of reducing prices was the problem of profit control, which, it will be recalled, demanded increasing attention even before the outbreak of war. The price provisions for government orders (which included supervision and curtailment of profits) and the extension of these provisions to other parts of the economy were attempts to handle the problem, but attempts that proved less and less satisfactory. Soon after the outbreak of hostilities a high official in the office of the

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[123] *Deutscher Reichsanzeiger,* 1940, No. 26.

[124] *Ibid.,* 1939, No. 235.

Price Commissioner emphasized[125] the necessity for re-examining the profit margins embodied in the decree for government orders, with a view to ascertaining whether the economic risk of some entrepreneurs had not been reduced considerably because of the shift to a war economy. In many instances, he felt, compensation for the risk of being unable to operate at capacity in the future was no longer justified. Special profit margins for which there may have been reason under ordinary circumstances were rarely justifiable, he maintained, during the war. These remarks were made at about the same time that another high official[126] was claiming that during a war entrepreneurial profits should be controlled as rigidly as the wages of the workers; that profits should not be higher "than justified by the actual, personal contribution of the entrepreneur." In the two-year period that followed, the Price Commissioner wrestled with the problem of implementing these ideas.

The first novel move in this direction was the decree of October 11, 1939,[127] which amended earlier regulations dealing with the savings realized by entrepreneurs when supplementary payments for overtime, holidays, and night work were abolished. Originally, the government had ordered that these savings be used to reduce prices. Now, in order to prevent increases in profits, the entrepreneur was to turn over such savings to the Collector for Internal Revenue. To use these savings to reduce prices instead of paying them to the tax authorities, a special permit from the Price Commissioner was required.[128] The next step taken defined excessive profits with reference to the cost-of-production principle laid down for government orders. It was suggested in December, 1939, that when profits in industries were higher than they would have been if the cost-of-production principle had been applied, the excess profits should be drawn into a special fund to be used to cancel out inevitable increases in the prices of raw materials needed by those industries.[129] This suggestion was actually adopted for certain industries.[130] A further tightening of profit and price control came in November, 1940, when the measure originally designed for cases in which wage reductions had taken place, was applied quite generally. The Price Commissioner ruled that, where there were excess profits, prices were to be lowered even if they did not exceed the 1936 price-stop level. Consumer goods industries were excepted; their excess profits were to be surrendered to the tax authorities. It is quite obvious that in case of civilian supply the Price Commissioner was confronted with a special problem. While a decline in prices for government orders was energetically sought, a reduction in prices of consumer goods might increase the demand for particular consumer goods beyond the available supply by enlarging the purchasing power of the population. Hence, instead of encouraging a reduction of prices for consumer goods, the Price Commissioner preferred at this time to allow the entrepreneur to charge the higher price, and ask the Treasury to skim off the resulting excess profit.

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[125] *Der Deutsche Volkswirt,* XIV (1939), 240-241.

[126] Wilhelm Rentrop, "Fleissprämie und Differentialrente," *Vierjahresplan,* III (1939), 1287.

[127] *Reichsgesetzblatt,* 1939, I, 2028.

[128] The provision became obsolete only a few months later when the various supplementary payments to wages and salaries were restored.

[129] *Der Deutsche Volkswirt,* XIV (1939), 241.

The most drastic attempt to limit profits and thus curtail prices was made in a decree released by the Price Commissioner in March, 1941.[131] Directed at all prices and all industries, and in a sense the first official, comprehensive interpretation of the price provision in the 1939 War Economy Decree which proclaimed that prices must be formed "on the basis of principles appropriate to a war economy," this decree of March, 1941,[132] marked the beginning of what was later called the profit-stop. "High profits ordinarily suggest that the entrepreneur should have reduced prices in the past and that he must do so in the future," said the decree. "Whenever price reductions are called for, the entrepreneur must act accordingly, without special request and without any delay." Where excess profits have been made in the past as a result of a failure to reduce prices that should have been reduced, they were to be turned over to the Collector for Internal Revenue without delay. Permissible profits were defined broadly as profits not in excess of those made in "a normal year" before the outbreak of war, or profits equal to the average profit of "a few normal peace years," provided that profits in the base years were not excessive. Profits which were a result of an increase in production or turnover following the outbreak of war were considered excessive.

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[130] *Ibid.*, XIV (1940), 432.

[131] *Frankfurter Zeitung*, March 13 and 15, 1941.

[132] For a very detailed description and analysis of the decree, see Schütz, *op. cit.*, pp 171-173.

When the decree was released, the press announced that more concrete provisions concerning the relationship between prices, profits, and taxes would follow. It was clear from the outset that in so vital a matter the government would not depend for any length of time upon voluntary action by the entrepreneurs. In June, 1941, the Price Commissioner reaffirmed the principle of enforcing price reductions by making high taxes the alternative, and at the same time issued careful instructions for measuring "excess" profits. Entrepreneurs were to ascertain their permissible profits on the basis of specific rules which took the capital and turnover of their businesses into account. For example, if capital was turned over once a year, permissible profit (after taxes) was 4.6 per cent of capital invested plus 1.5-3.5 per cent as risk premiums, and 1-2.5 per cent as reward for entrepreneurial activity.[133] The system was different in wholesale and retail trade where permissible profits were not to exceed prewar profits (1938 or the average of 1936-38) by more than 25 per cent, provided that their turnover had increased proportionately.[134] Soon the measure was extended to other parts of the economy. It was not long before professionals (physicians, lawyers, etc.) whose incomes exceeded 10,000 reichsmarks a year were included.[135] It would be a mistake to consider the measure an excess-profit tax. The taxing device was used punitively as an instrument for attaining the major objectives of Nazi price policy. It was hoped that the profit-stop would function in a manner similar to competition in a traditional economy, to get entrepreneurs interested in price reductions or, at least, to make them disinterested in prices increases.[136] Save for exceptional cases for which special permission was necessary,[137] entrepreneurs were not to turn over excess profits as taxes to the government, but were compelled to use them "under all circumstances" for the reduction of prices. Permission not to reduce prices, but to pay excess profits as a tax, was given only when price reduction was considered economically inappropriate. Permission was sometimes granted to use excess profits for necessary investment or as a check against future price rises where increase in the cost of production was anticipated. All enterprises with an annual turnover in excess of 50,000 reichsmarks had to file a return of profits and prices with the Price Commissioner six months after the end of the business year. How important the price reductions achieved by the measure were is not known. Newspapers and magazines have listed price reductions decreed by the price authorities, and at times they seem to have been quite considerable (12, 14, 15, 20, or even 33 per cent).[138]

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[133] Singer, *op. cit.*, LI (1941), 410.

[134] *Frankfurter Zeitung*, July 27, 1941.

[135] Singer, *op. cit.*, LII (1942), 29.

[136] Leonard Miksch, "Warum Gewinnstop?" *Die Wirtschaftskurve*, XX (1941), 98.

[137] Schütz, *op. cit.*, p. 173.

The two most significant attempts to reduce prices, the extension of the cost-plus principle to nongovernment orders and the use of excess profits, were both short-lived. Early in 1942 a system of fixed prices for government orders replaced the cost-plus principle, which, having proved cumbersome in operation, was to be used thereafter only in "experimental or development cases."[139] Producers were classified into five groups, depending upon their cost of production. Prices in the lowest groups were to be revised yearly, in the other groups every six months. By the autumn of 1942 seventeen hundred different commodities, amounting in value to about one third of the armament production, were thus regulated. Entrepreneurs could elect to belong to the lowest cost-price group, and there were incentives for choosing to do so. This group not only received preferential treatment in the allocation of materials and labor, but was exempt from the new obligation of entrepreneurs, introduced in the spring of 1942, to deposit part of their excess income with the Treasury.[140] This scheme was considered an additional incentive for entrepreneurs to comply with the existing price regulations.

MEASURES AGAINST EVASIONS

A price-control system of the magnitude and comprehensiveness of the regulatory apparatus set up by the Nazis is bound to give rise to attempts to evade many of the provisions. In anticipation of such attempts, various decrees and laws prescribed severe penalties for violators. The second paragraph of the Price-Stop Decree announced that it was forbidden to engage in activities which, directly or indirectly, amounted to evading the Price Commissioner's regulations. It was a punishable offense, for example, to attempt to maintain prices by lowering the quality of the commodities sold. Similar penalties were threatened in the decree of July 15, 1937, concerning imported commodities.[141] Violators were subject to money fines and/or imprisonment. One of the most subtle evasion techniques confronting the price authorities was the so-called bundle sale *(Koppelungsverkäufe)*, i. e., a sale of one commodity, usually one in which there was a shortage, only upon the condition that the purchaser take a certain amount of another commodity, usually one which was difficult to sell. This meant that higher prices were imposed indirectly upon consumers by compelling them to make unintended purchases. Bundle sales increased rapidly in the early years of price control, and in spite of vigorous efforts to stamp them out, continued to reappear. A decree of October 29, 1937,[142] designed to reduce the retail price of agricultural commodities, declared it illegal to make the sale of certain agricultural commodities dependent either upon the simultaneous purchase of agricultural commodities differing in kind of quality, or upon a promise to buy such commodities in the future.[143] In a decree of November 6, 1938,[144] concerning retail maximum prices for hen and duck eggs, there was a specific regulation making bundle sales of different types and different qualities of eggs illegal. In 1938 the Police Commissioners of various large cities, including Berlin, decreed heavy penalties for bundle sale practices.[145] But two years later, in a circular letter of August 16, 1940,[146] the Price Commissioner claimed that some enterprises in the wholesale and import trade were selling certain foodstuffs only if they could induce the customer to purchase something else in addition, and in November, 1940, *Der Deutsche Volkswirt* still complained about bundle sales.[147] Another serious problem was a kind of speculation referred to in the literature as chain trade *(Kettenhandel)*. This was a practice by which individuals became additional links in the normal chain of middlemen between production and final consumption, a practice which tended to increase the final price. The first move against such chain trade is contained in the decree concerning the unification and cheapening of trade in oils and fats of June 1, 1935,[148] which ordered that sales by one wholesaler to another must be affected without increasing the price. Similar principles had been established earlier in the decrees of November 11, 1934, concerned with administered prices, and directed against the increase in cost of living.[149] The decree of July 15, 1937, concerning prices for imported commodities[150] and the decree of October 29, 1937, had similar provisions.

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[138] Singer, *op. cit.*, LI (1941), 410, and LII (1942), 390.

[139] *Ibid.*, LII (1942), 196 and 391.

[140] See pp. 298-299.

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[141] *Reichsgesetzblatt*, 1937, I, 881.

[142] *Ibid.*, 1937, I, 1142.

[143] Engelsing-Glissman, *op. cit.*, IV, A, p. 6a.

[144] *Reichsgesetzblatt*, 1938, I, 1564.

[145] *Der Deutsche Volkwirt*, XII (1938), 2375.

[146] *Ibid.*, XIV (1940), 1828.

Changing the weight of commodities was another method of evading price regulations. As a result, the second decree of July 2, 1937, concerning prices for meat and sausages[151] and the decree of November 6, 1938, concerning retail maximum prices for hen and duck eggs,[152] forbade the sale of commodities by the piece; henceforth, only sales by weight were permitted. To protect buyers who might be fooled by odd weights or unusual packages, special regulations were issued for the retail marketing of coffee, bee honey, and artificial honey.[153] Another opportunity for evading price provisions, the changing of quality, of types, and of designs—an opportunity that always presents itself in a rigidly controlled price system—taxed the ingenuity of the price authorities from the very beginning. No attempt was made to pretend that the price authorities had succeeded in making evasions through quality changes impossible.[154]

The available evidence indicates that the upward strain upon prices increased with the passing of time, particularly after the outbreak of war, and this was reflected in the increased evasions, old and new.[155] Announcements that certain devices were illegal suggest some of the methods employed: if several middlemen are engaged in a certain transaction, the trade margin must be split between them and may not be added separately for each; customary cash rebates may not be canceled; integrated concerns engaged in both wholesale and retail trade may charge only one trade margin. The Price Commissioner revealed in April, 1940, that firms tried to shift increases in cost by lowering quality or by various conditions of payment and delivery. Goods were delivered not directly as previously, but through a retailer who was permitted to charge a separate margin or preferential treatment was extended to customers who bought some goods with a high profit margin.[156] In order to stop evasion through concentration on higher priced goods, the Price Commissioner issued more and more instructions specifying the kinds of commodities to be produced.[157]

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[147] Singer, *op. cit.*, LI (1941), 202.

[148] *Reichsgesetzblatt*, 1935, I, 722.

[149] *Ibid.*, 1934, I, 1248.

[150] *Ibid.*, 1937, I, 881.

[151] *Ibid.*, 1937, I, 728.

[152] *Ibid.*, 1938, I, 1564.

[153] *Ibid.*, 1933, I, 259 and 363; and *ibid.*, 1935, I, 5.

[154] Miksch, *op. cit.*, p. 254.

[155] Singer, *op. cit.*, pp. 27 and 202. For a detailed list of evasion devices, see an announcement of the Price Commissioner of Dec. 8, 1940 (*Mitteilungsblatt des Reichskommissars für die Preisbildung*, 1940, I, 852).

It is reported that 3,975 shopkeepers in Berlin were convicted of violations of price regulations in March, 1941.[158] Information is not available as to how many of these convictions were in connection with the establishment of black markets. They undoubtedly existed, but are so seldom mentioned in the literature that one suspects that even during the first years of the war they were not as prevalent as is often alleged.[159] It may very well be that the threat of cruel penalties succeeded in discouraging black markets for a while. But with increasing shortages and ever stricter war measures the situation changed. By 1942 barter trade—which is a form of black market operation—seemed to have been spreading, and retailers were warned that they risked their heads if they did not discontinue barter transactions. In fact, barter was declared "Public Concern No. 1."[160]

AN APPRAISAL OF NAZI PRICE POLICY

It is exceedingly difficult, in certain respects well-nigh impossible, to determine whether or not Nazi price policy before and during the war satisfied the objectives of the German government. Nazi price policy was contrived to serve various purposes. First, it was designed to keep the price level, as represented by the weighted average of a number of prices, as stable as was considered necessary to maintain, at least approximately, the purchasing power of the national currency. Second, the complicated and, in certain respects, revolutionary price system was meant to be one of the substitutes for the automatic price mechanism of a free economy. There were, of course, other substitutes for the flexible price device of the free market; the government allocated raw materials and manpower; it planned production and consumption; it gave direction to individual entrepreneurs and to the economy as a whole without having to fear that a movement of prices would seriously interfere with its objectives. Armed with numerous price decrees and unlimited police power, it felt sure that prices would work hand in hand with priorities, planning, and rationing to replace successfully the market mechanism of the traditional economy.

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[156] For a discussion of the difficulties which arose in enforcing the price provisions, see Singer, *op. cit.*, pp. 203-205.

[157] *Ibid.*, p. 412.

[158] *Ibid.*, LII (1942), 26.

[159] *Der Deutsche Volkswirt* (XV, 1941, 611) declared black markets to be very unimportant. What was traded in black markets, it said, were commodities not produced in Germany, but imported from occupied territories. This, of course, admits that black markets of some kind did exist.

[160] Singer, *op. cit.*, p. 188.

It was as a part of this co-ordinated system that price policy was expected to play a vital role. Price policy was meant to stimulate production in certain fields, in agriculture, for example, and in certain of the capital goods industries; it was to help the government locate the most efficient entrepreneur; it was to be an instrument for stimulating productivity; it was to assist in curtailing consumption of commodities, the production of which the government was anxious to reduce; it was to help change habits of distribution and consumption throughout the economy.

In spite of the inadequacies of the statistical material and the skepticism that Nazi statistics naturally inspire, the various German price statistics and indicators seem to suggest that the supreme objective of Nazi price policy, avoiding inflationary processes, was, to a large extent, accomplished. One thing can certainly be said about the success of Nazi price policy: we do know that the Nazi economy was sufficiently organized and developed when war began to stand up under the strain of a military conflagration, the magnitude of which must have created tremendous economic problems. That the controlled price system had a share in that accomplishment can hardly be denied.

Except for these two achievements, it is impossible to arrive at any reliable conclusion as to the effectiveness of the Nazi price system without a much more detailed investigation of specific situations, specific industries, and specific commodities. For most of this, the material is either completely lacking, or a great amount of minute research work is required. Hence, it is not possible to ascertain whether the Nazi price system has been instrumental in stimulating productivity, in avoiding waste, and in keeping the spirit of initiative and co-operation alive. Nor has it been possible to determine to what extent the price system has been effective in curtailing the consumption of certain commodities and in redirecting the economy along the paths desired by the government. The stringent provisions concerning violations and evasions, the extremely severe penalties which the authorities could impose upon violators and evaders, seem to indicate that the Nazi government knew only too well that entrepreneurs would frequently be tempted to violate the rules laid down by the Price Commissioner. It is hardly probable that the government would have provided for such severe penalties, and would have given the administrative offices of the Price Commissariat such wide judicial powers (without any court procedure), if the probability of violation were not considered very high. Neither can one determine to what extent the price system was used for favoritism. It is possible, although evidence is lacking, that the Price Commissioner made use of his authority to increase the rate of profit in certain instances far beyond the official average rate of profit. Too little information is available to enable one to answer the many questions of this kind that come to mind.

Chapter 9

Public Revenue

THE LIMITATION ON INFORMATION ABOUT NAZI FINANCE, 276. BORROWING, 277—The Principles of Nazi Borrowing, 277; Government Borrowing during the Period of Large-Scale Unemployment, 1933-35, 280; Government Borrowing during the Period of Rapidly Increasing Employment, 1935-38, 284; Government Borrowing during Period of Full Employment, April, 1938-August, 1939, 289; Government Borrowing after the Outbreak of War, 295; Size of Borrowing, 300. TAXATION, 301—The German Tax System at the Beginning of 1933, 301; German Taxes and Tax Policy, 1933-39, 303: Tax Policy as an Instrument of Economic Control, 303: (a) Stimulation of Employment, 304; (b) Increase of Population, 306; (c) Facilitation of Rearmament, 306; Tax Increases, 308; New Taxes (Defense Tax and Income Increment Tax), 309; State and Local Taxes, 312; Simplification and Improvement of Tax Administration, 314—Tax Policy Since the Outbreak of War, 316; Results of Nazi Tax Policy, 318. REVENUE OF PRIVATE AND QUASIPUBLIC ORGANIZATIONS AS A SOURCE OF PUBLIC FUNDS, 321—Collections, 323; Contributions and Fees, 325: Reich Food Estate, 325; Organization of Industry, 326; Department of Propaganda, 327; Unemployment Insurance Contributions, 328; The Nazi Party and Its Affiliates, 329; Summary, 330.

The Limitation on Information about Nazi Finance

Soon after the Nazi government came to power, it discontinued the customary publications on the financial conduct of public affairs. Public income and public expenditure of Germany after 1933 are therefore shrouded in mystery. Publication of expenditure figures was completely discontinued, obviously to suppress information on war preparation which such figures might have revealed. Although data on public revenue were not concealed to the same extent, existing official statistics offer only very inadequate and incomplete information on the magnitude and sources of funds turned over to the German treasuries from 1933 to 1943. It would be necessary to supplement the official data with numerous estimates based largely on conjecture in order to obtain even an approximate idea of the amounts involved. Since it is impossible, therefore, to present a statistical analysis of Nazi financial policies with a desirable degree of accuracy, we shall, as we have done in other parts of this study, restrict ourselves to an examination of the methods and techniques employed by Germany in raising the huge amounts needed to finance her armament program and her active belligerency. Wherever it seems necessary, we shall illustrate the analysis with some statistical material on the funds raised.

The Nazi government obtained its income both from sources usually accessible to governments and from extraordinary sources. Revenue was derived from taxation, administrative income, income from public property, and an increase in debt—channels through which part of national income is ordinarily diverted to public authorities. In addition, the Nazi government obtained considerable amounts through "voluntary" and involuntary contributions, which were a conglomeration of fees, levies, and collections of all kinds imposed upon the population, and, after the outbreak of war, through heavy levies upon occupied foreign territories for "cost of occupation," etc. While the Nazi government deviated in its tax policy only in few instances from customary taxation methods used by any government, it showed great inventiveness in borrowing money and obtaining funds through novel and original devices. We shall first deal at some length with the borrowing methods applied by the Nazi government and shall then analyze the other sources of its public revenue.

BORROWING

The Principles of Nazi Borrowing. In a speech on February 8, 1942, the Secretary of the German Treasury is said to have declared, "The financial and credit policy of the Reich had never been reduced to a dogma, but it seized the most favorable moment to find money necessary for the prosecution of the war, wherever it was to be found."[1] These remarks may well be taken as a description of the ever-opportunistic borrowing policy of the Nazi government before the outbreak of war, as well as after. With an eye on conditions in the money and capital markets, the government borrowed money "wherever it was to be found." Its specific methods at any given time were conditioned by the existing credit situation. But this did not mean that its attitude toward the credit situation was passive, that the government was resigned to accepting conditions in the money and capital markets as given, and beyond control. Far from it. The financial sector, like the rest of the economy, was harnessed to the needs of the military program, and the government never hesitated to take steps to prepare the money and capital markets for playing an ever larger role in providing necessary funds.

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[1] *The New York Times,* Feb. 9, 1942.

During the period under review the question of the aggregate amount to be borrowed at a given time was scarcely affected by any of the traditional financial considerations usually associated with expressions like "sound finance" or the "financial strength of the Reich." Instead, the decision as to the volume of new borrowing was dependent upon the size of the "public works" and armament program, which, in turn, was planned in accordance with the ultimate military objectives of the government and the amount of physical resources available. In the beginning, when the Nazis were probably not yet fully aware of how much of a burden the money and credit system could safely carry, and when they were still seriously concerned about public opinion at home and abroad, it is quite possible that financial considerations did, to some extent, impede actual expansion. Their success in this area, after they completely freed themselves of all the usual financial inhibitions, indicates that the money and credit system of a complex modern economy can be subjected to much greater strains than has hitherto been generally believed. The break with the traditional attitude on government borrowing found expression in a law passed in February, 1935,[1a] which authorized the Treasury "to borrow funds in amounts to be determined by the Reich Chancellor upon the suggestion of the Treasury." Whereas the Constitution of the Weimar Republic had authorized government borrowing, on the whole, for investment purposes only and had sought to restrict it by making it dependent upon special legislation, the Treasury was now given a completely free hand, the only limitation being the formality of requiring an authorization from the Reich Chancellor. There were no other restrictions of any kind; special legislation for new loans was no longer necessary.

While the extent of government borrowing was no longer a

[1a] *Reichsgesetzblatt,* 1935, I, 198.

matter of great significance and study, the financial authorities of the Reich devoted much attention to determining the nature and types of new government obligations. Here they showed great versatility in devising various new short-term borrowing instruments called tax remission certificates, work creation bills, special bills, special types of Treasury certificates, delivery bonds, tax anticipation certificates, army promissory notes, and Reich Credit Office notes. Some were rediscountable at the Reichsbank, some were only acceptable as collateral against lombard credit from the Reichsbank, some were renewable, some enjoyed special tax privileges, and even legal tender qualities.

The techniques employed by the Nazis in the six-year period until the outbreak of war varied with changing economic conditions, particularly the changes in the volume of unemployment and in the extent of unused capacity. In the early years, especially the first two, the government relied very largely upon credit expansion through the Reichsbank and commercial banks. Later it borrowed increasing amounts of the funds accumulated by business organizations, and by institutional and private savers, as it tried to keep down the rising volume of credit expansion. When war was declared, the only significant change in the methods of borrowing was an increasing dependence upon short-term financing.

As is usually the case during a period of rapid expansion, particularly when the expansion is largely supported by central bank credit, the money market became very liquid after the Nazis embarked upon their rearmament program. After carefully preparing the capital market, the government took advantage of this new liquidity to supplement its short-term borrowing policy by a series of long-term loans. Floated at 4.5 per cent, the interest rate which the Nazi government had uniformly established in the prewar period for nearly all long-term debts in the economy, these loans cost the government more than the short-term issues. Just why it did not reduce interest rates further is difficult to say. It is possible, of course, that it feared unfavorable repercussions from institutional and private savers. But it dominated the money and capital market so completely that quite likely it could have reduced interest rates further without adversely affecting the volume of funds available to borrowers. Not until after the outbreak of war did the government further reduce the interest rate on new long-term government bonds.

It is impossible to obtain complete information concerning the extent of borrowing by the Nazi government, or the methods it employed. The discussion that follows is based on whatever material is available. Four different periods are distinguished: (a) the period from the beginning of the Nazi administration until about 1935, during which there was a gradual decline in the large number of unemployed, and the mounting government deficit was covered by short-term loans; (b) the period from 1935 until 1938, during which the economy was approaching full employment (in this period the Nazis were able to consolidate some of their previously contracted short-term debts into long-term loans, but at the same time continued to increase their short-term indebtedness); (c) the period from 1938 until the outbreak of war, a period of full employment, during which the Nazis deemed it necessary to employ special financial methods (in addition to continuing the short-term borrowing and consolidation loans) lest inflationary tendencies become uncontrollable; and (d) the period since the outbreak of war, characterized by the continual placement of huge long- and short-term loans and by the exploitation of the resources of the occupied foreign territories.

Government Borrowing during the Period of Large-Scale Unemployment, 1933-35. When the Nazis seized control, they found the capital market too demoralized to hope to finance government deficits through the sale of long-term bonds. Since the market recovered very slowly,[2] they were compelled to cover the entire budgetary deficit of the first two years through short-term borrowing. Their first short-term instruments, the tax remission certificates *(Steuergutscheine)* and the work-creation bills *(Arbeitsbeschaffungswechsel)*, were contrived by their predecessors. The tax remission certificates were originally introduced in September, 1932, as part of the Von Papen Plan for combating the depression.[3] To stimulate private enterprise by lowering the taxes considered particularly inhibitory to production, and at the same time to avoid sacrificing the revenue they yielded, the government collected taxes as usual, but issued tax remission certificates, which could be converted into cash immediately or held as credits for future tax payments. Those who paid the business tax *(Gewerbesteur)*, the turnover tax *(Umsatzsteur)*, and the land-and-building tax *(Grund-und-Gebäudesteuer)* received tax remission certificates in an amount equal in value to 40 per cent of their payments between October 1, 1932, to September 30, 1933; and those who paid the transportation tax *(Befoerderungsteuer)* received certificates equal in value to 100 per cent of their payment during this period. Earning 4 per cent annually, these certificates could be used for payment of all Federal taxes and customs (except corporation and income taxes) due in the fiscal years 1934-35 to 1938-39, in an amount each year equal to 20 per cent of the total value of certificates issued. In other words, for each 1,000 reichsmark certificate, 208 reichsmarks would be accepted for tax payments after one year, 216 reichsmarks after two years, 224 after three years, etc. Taxpayers who preferred cash immediately, could sell their certificates on the Stock Exchange (they were exempt from stamp duty[4]) and use the proceeds as they saw fit. It was expected that the certificates would have a high market value, since in addition to their annual return of 4 per cent they were to be treated as first-class paper; they could be used as collateral against loans, and the Reichsbank was permitted to rediscount them up to 75 per cent of their market value. To insure a strong demand for them, a consortium of banks was organized to purchase the certificates from the holders with funds provided for the purpose by the Reichsbank.

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[2] *Vierteljahrshefte zur Konjunkturforschung*, IX (1934), A, 11-12.

[3] Decree of the President of the Reich concerning Economic Recovery of Sept. 4, 1932 *(Reichsgesetzblatt*, 1932, I, 425*)*.

The total amount of tax remission certificates issued was 1471.1 million reichsmarks, 471.9 million in the fiscal year 1932-33, 890.6 million in 1933-34, and 105.1 million in 1934-35. The largest amount in circulation at any given time was 1362.5 million reichsmarks in March, 1934. By July, 1938, the entire issue of tax remission certificates had been redeemed. An insignificant part of the total amount mentioned was issued in connection with another phase of the Papen Plan, namely, the payment of a subsidy (of 400 reichsmarks a year per man) to employers who could prove that they had employed more men from October 1, 1932, to September 30, 1933, than in the period from June to August, 1932. This subsidy scheme was discarded on March 31, 1933.[5]

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[4] League of Nations, *Public Finance, 1928-1935* (Geneva, 1937), XII, 9.

The most important of the short-term bills employed by the Nazis, first, to finance public works and, then, armaments, were the work-creation bills which were specially designed to circumvent limitations imposed by conditions existing at the beginning of 1933.[6] At that time the commercial banks were in no position to make the necessary short-term credit available. Their portfolios were full of frozen credits. They were extremely illiquid and heavily in debt to the Reichsbank. The Reichsbank, on the other hand, restricted at that time by its own statutes, could neither discount bills on behalf of the government, nor pursue an active open-market policy.[7] Since, however, it could discount commercial bills, a special kind of bill—the Work Creation Bill—was devised, which was treated as an ordinary commercial bill and was hence eligible for discount at the Reichsbank.

Work-creation bills performed their short-term financing function in the following manner.[8] States, provinces, counties, municipalities, and other authorized public and semipublic agencies ordered houses, roads, etc., from private contractors, who drew bills of exchange against them for the amount of the contract. After being endorsed by the ordering agency, these bills were presented for acceptance to special publicly owned financial institutions, such as the Deutsche Bau-und Bodenbank, the Deutsche Gesellschaft für Öffentliche Arbeiten A. G., the Deutsche Rentenbank Kreditanstalt, the Deutsche Bodenkultur A. G., and the Deutsche Siedlungsbank. Once accepted by any of these financial institutions, they were treated as commercial bills and could be discounted at the Reichsbank. Just as ordinary commercial bills are supposedly "secured" by commodities in the process of production or sale, so these new bills were secured by the obligation of the Reich to redeem them within a specified time period, which varied from project to project but never exceeded five years.[9] The Reich emphasized this obligation by depositing special guarantees, tax remission certificates, or work-creation debentures with the Reichsbank.

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[5] *Wirtschaft und Statistik,* XVIII (1938), 789-790.

[6] The work-creation bills were originally introduced in January, 1933, to finance von Schleicher's Urgency Program for the expenditure of 500 million reichsmarks on roads, housing, public utilities, and inland water transportation.

[7] On October 27, 1933, the Reichsbank was authorized to engage in open-market operations whenever it was found necessary to tighten or loosen the credit market. For further discussion, see p. 115.

[8] The mechanism is well described in Adolf Friedrichs, "Die Finanzierung der Arbeitsbeschaffung," *Bank-Archiv,* XXXIII (1934), 134 ff.

By 1935 the expenditures on work creation openly became part of the armament program. Before March of that year most of the rearming had taken place under a veil of official secrecy, but after Germany reintroduced military conscription, military preparations were carried out openly with great zeal. The public works program gradually gave way to the construction of airdromes, barracks, and munitions factories, which were financed by short-term paper very similar to work-creation bills, called "Special Bills" *(Sonderwechsel).* They were six-months bills which could be issued by any government department for payment of contractors, were discountable by the Reichsbank at its official rate of 4 per cent, and were renewable without limit.

The guarantee posted by the Reich in the case of work creation bills and its direct liability in the case of special bills meant that all these bills were an addition to the short-term public debt. They constituted government liabilities to either the Reichsbank or the commercial banks, but the Reich's budgetary and accounting procedure failed to include them as part of the declared public debt. The German government was obviously reluctant to make its short-term debt known, probably because it did not want to risk disturbing public confidence, and also because a large part of the debt served to finance rearmament, the extent of which the government was undoubtedly anxious to keep secret. The published figures of the Reich did not consider the short-term debt an obligation of the government until the year it fell due.[10] Since only 20 per cent of the work-creation bills fell due each year, the figures published during the first few years of the Nazi administration failed to record a large percentage of the work creation bills, and all of the special bills.

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[9] The bills were drawn for three months, but being renewable nineteen times, they took on the character of middle-term paper. When the bills matured, the Reich—not the municipalities or other agencies—paid them. But the ultimate liability rested with the ordering agencies which owned the public works financed through the work-creation bills. It was a long-term liability to the Reich for the amounts originally financed by the short-term mechanism of the work creation bills.

[10] The *Wochenbericht des Instituts für Kunjunkturforschung* (VIII, 1935, 183-184) maintains that there is no such thing as a "secret" Reich indebtedness, since it is justifiable not to record a public debt which legally is not yet an obligation of the government.

The work creation and special bills proved, in addition to interest-bearing Treasury certificates and noninterest-bearing Treasury bills, an effective means of utilizing the short-term money market to finance the public works and rearmament program, until such a time as recourse to long-term loans became feasible. But even after long-term capital was more readily available, the Nazis continued to use these short-term bills. The League of Nations suggests that until 1938 the issue of special bills was the "principal means of financing Germany's armament and other capital expenditures,"[11] and the Reichs-Kredit-Gesellschaft calls the period from 1935 to April, 1938, "the phase of the 'special' bills."[12] Official figures on the amount of special bills issued were never made public. Private estimates vary widely.[13]

Government Borrowing during the Period of Rapidly Increasing Employment, 1935-38. The financing of the government deficit through short-term bills was viewed by the Nazi government as a temporary expedient made necessary by the condition of the German capital market when they seized control. Early in 1934 the Reichs-Kredit-Gesellschaft announced that "every effort must be made by a prudent capital market policy to cause an organic reduction in the present high rate of interest for long-term borrowing, and to foster new capital accumulation. The new capital thus accumulated will be required to fund the existing and future short-term borrowing which is necessary to finance the cost of the government works program."[14]

As a preliminary step in the movement to revive the capital market, appropriate official Nazi sources repeatedly declared that any idea of a forced conversion of existing loans into issues with longer terms or lower interest rates had been unequivocally rejected.[15] Then followed a series of measures designed to increase general confidence, reduce the long-term interest rate, and prepare the capital market for the eventual absorption of large government issues. Most important were the Law concerning the Conversion of Short-Term Internal Municipal Debts,[16] providing for the consolidation into long-term municipal issues and the reduction of interest rates on municipal debts, previously a "critical source of uncertainty,"[17] and the change in the Reichsbank Law of October, 1933,[18] which empowered the Reichsbank to support the bond market by engaging in open-market operations; and the Law concerning the Credit System of December 4, 1934,[19] one of the purposes of which was to obligate and encourage the commercial banks to hold larger portfolios of government bonds, by making them eligible for use as legal required reserves. It was hoped that the resulting increase in demand would favorably affect the market for government securities.[20]

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[11] League of Nations, *Money and Banking 1938-39* (Geneva, 1939), II, 81.

[12] *Economic Conditions in Germany in the Middle of the Year 1939*, p. 42.

[13] The League of Nations (*op. cit.*, p. 81) records some of the estimates. No estimate of the total amount of special bills in circulation at the end of March, 1938, is reliable, however, for the available banking statistics do not permit the separation of special bills from genuine commercial bills, work creation bills, and other short-term papers.

[14] *Germany's Economic Situation at the Turn of 1933-34*, p. 56. The German Institute for Business Research emphasized (*Weekly Report*, IX, 1936, 53) that "the government has always made it clear that the intermediate short-term financing of employment creation was to be considered as the premature use of future capital, and that at given times the short-term debts were to be funded, so that the principles of sound finance policy would not be neglected."

During 1933 and 1934 general interest rates steadily declined. The yield on first-class 6 per cent bonds fell from 7.5 per cent in July, 1933, to about 6 1/3 per cent towards the end of 1934.[21] Since the situation had become much more auspicious for conversion, the government proceeded to convert all pre-Nazi issues into securities bearing lower interest rates, and to consolidate its own short-term debts. Conversion laws enacted on January 24, 1935,[22] and February 27, 1935,[23] placed all public and semipublic bonds on a 4 1/2 per cent basis instead of the previous 6 per cent. Because of the wide differences in the character of the industrial bonds, and because of the comparatively small amounts involved, their conversion was left to private initiative. In 1936 about 300 million reichsmarks out of about 450 million reichsmarks eligible for conversion, were placed on a 4.5 to 5 per cent basis.[24] These conversions not only functioned as part of a general plan to reduce interest rates and thus ease the interest burden in the economy; they also played a part in preparing the capital market for the consolidation of the short-term indebtedness of the Reich.[25]

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[15] Reichs-Kredit-Gesellschaft, *Germany's Economic Situation at the Turn of 1933-34*, p. 50. As early as June, 1934, the (London) *Banker* assured its readers (June, 1934, p. 185) that "the attitude of the new [Nazi] regime towards the banks proved to be less hostile in practice than had been expected. . . . the revolutionary proposals for the nationalization of banks and the abolition or compulsory reduction of interest rates have not so far been made operative and there seems to be no likelihood of their adoption."

[16] *Reichsgesetzblatt*, 1933, I, 647 f.

[17] Reichs-Kredit-Gesellschaft, *Germany's Economic Situation at the Turn of 1933-34*, p. 50.

[18] For further discussion, see pp. 114 ff.

[19] For further discussion, see pp. 118 ff.

[20] These and other steps taken to strengthen the capital market are all treated in the chapter on "Control of Money and Banking" (pp. 107 ff.). The imporance for the capital market of the Loan Stock Act of Dec. 4, 1934, officially known as the Law Concerning the Distribution of Profits by Corporations, has frequently been overrated and misunderstood. A detailed description of the way in which it functioned will be found on pp. 129 ff.

[21] *Vierteljahrsefte zur Konjunkturforschung*, IX (1934), Part B, p. 375, and X (1935), Part B, p. 4.

[22] *Reichsgesetzblatt*, 1935, I, 45.

[23] *Ibid.*, p. 286.

The Nazi government was now prepared to consolidate its own short-term indebtedness, a task made easier by a virtual ban that had been placed on all private loans.[26] Concurrently with the public conversion operation of 1935, the first long-term loan was floated for the purpose of consolidating the short-term work creation bills; in January, 1935, the government issued 4.5 per cent bonds which were taken up by the Union of Savings Banks and the Clearing Bank Association (Deutsche Girozentrale) at 98¼ and were to be repaid within twenty-eight years.[27] To facilitate the purchase of the issue, the Department of Economics issued a special order authorizing savings banks to invest up to 50 per cent of their liquid resources in government securities. The loan was oversubscribed.[28] In the spring of 1935 negotiations were begun for the same purpose with the private insurance institutions, who "offered to invest part of their newly acquired funds in Reich loans,"[29] an offer which they repeated for the following year.[30]

The second great consolidation action was taken in September, 1935.[31] The new loan was taken over by the organizations of the savings and clearing banks. Simultaneously, 4.5 per cent ten-year Treasury bonds were floated which for the first time were offered directly to the public in the open market. This loan, too, was oversubscribed.[32] It was followed by issuance of 4.5 per cent National Railway Bonds floated at the beginning of January, 1936, in order to fund the floating debt of the Railway Company, particularly the bills issued to finance the Reich Auto Roads, and "to improve the liquidity of its financial position."[33] These two first "consolidation" loans had set the pattern for many similar loans which followed each other in quick succession in the following years. Only during a limited period were some of the issues offered for public subscription. The government came to rely more and more on institutional savings for the purchase of long-term issues. Appeals to the public were completely discarded in 1938: "consolidation" through public subscription had come to an end. It must have seemed wise from a political point of view to avoid loan drives and public discussion and to channel instead savings into the large capital-accumulating institutions. The government obviously considered this pattern very successful and, as we shall see later,[34] employed it exclusively for long-term issues during the years of war.

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[24] League of Nations, *Money and Banking 1936-37* (Geneva, 1937), I, 89. Interest rates on most bonds were reduced to 4.5 per cent. On some industrial bonds the rate was reduced to 5 per cent (instead of 4.5 per cent), but the amount of such bonds outstanding was comparatively small.

[25] *Vierteljahrshefte zur Wirtschaftsforschung*, XII (1937-38), 152.

[26] For a more complete treatment, see pp. 134-136.

[27] *Wochenbericht des Instituts für Konjunkturforschung*, VIII (1935), 16-17.

[28] League of Nations, *Public Finance 1928-1935* (Geneva, 1937), XII, 17.

[29] *Wochenbericht des Instituts fuer Konjunkturforschung*, VIII (1935), 144.

[30] *Weekly Report of the German Institute for Business Research*, IX (1936), 53.

[31] For further details, see Table 1, p. 288.

The table on the following page reveals that during the 1935-38 period a progressive increase appeared in the rate of what the Nazis called consolidation; not only did the loans increase in size from issue to issue, but they were floated at closer intervals. At the same time maturities tended to lengthen. The increasing liquidity of the money and capital markets during the period of consolidation[35] must be understood as part of the general picture of expanding economic activity. Among the many factors contributing to this liquidity were the large expenditures of the government and the employment of large amounts of discountable "short-term" bills, which, taken together, increased the cash resources of business and commercial banks. At the same time large additions were made to savings deposits, insurance premiums, and the sums collected by the social insurance institutions, all attributable to the great increase in employment. Nazi statistics place the total of long- and medium-dated 4.5 per cent Reich loans and Treasury bonds floated from the beginning of 1933 until the outbreak of war at about 17,850 million reichsmarks, of which about 8,900 million reichsmarks were offered for public subscription, and the rest placed directly with insurance institutions, savings banks, other financial houses, and (since the autumn of 1938) with local and municipal reserve funds.[36]

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[32] Reichs-Kredit-Gesellschaft, *Germany's Economic Situation at the Turn of 1935-36*, p. 52. See also Great Britain, Department of Overseas Trade, *Economic Conditions in Germany to March, 1936*, pp. 28-29.

[33] *Wochenbericht des Instituts für Konjunkturforschung*, IX (1936), 4, and Reichs-Kredit-Gesellschaft, *op. cit.*, p. 52.

[34] See p. 296.

[35] For a detailed and instructive discussion of the effects of the various consolidation issues upon money and capital markets, see Willi Schmidt and Victor Wrede, Konsolidierung und Kreditmechanismus, *Vierteljahrshefte zur Wirstschaftsforschung*, XII (1937-38), 405 ff.

Since the total bill holdings of the German banks, including the Reichsbank, continued to increase during the period of "consolidation," it is apparent that the medium- and long-term consolidation issues "consolidated" the public debt of Germany only in

TABLE 1

REICH LOAN ISSUES, 1935 TO AUGUST, 1939*

Issues (millions of Reichsmarks)	Total Amount Issued	Amount Publicly Offered	Years to Maturity at Issue Date
(a) *Loans at 4.5 per cent:*			
1935	846.8	.....	27
1935 Series II	1078.6	.....	27
1937	637.3	.....	27
1938	1783.9	.....	27
1939	1624.9	.....	27
(b) *Reich Railway Bonds 1936 4.5 per cent:*	500.0	500.0	8
(c) *Redeemable Treasury Bonds 4.5 per cent:*			
1935	500.0	500.0	10
1936 Series I	98.0	.....	10
1936 " II	700.0	500.0	12
1936 " III	600.0	500.0	12
1937 " I	700.0	600.0	12
1937 " II	800.0	700.0	15
1937 " III	850.0	750.0	15
1938 " I	1400.0	950.0	18
1938 " II	1966.0	1200.0	20
1938 " III	1850.0	1200.0	20
1938 " IV	1600.0	1600.0	20
(d) *Debt Certificate Loans:*			
1935 4 per cent	264.1	......	.
1936 4.5 per cent	56.7	......	.
Total	17856.3	8900.0	

*Sources: Reichs-Kredit-Gesellschaft, *Germany's Economic Situation at the Turn of 1938-39*, p. 92; and *Wirtschaft und Statistik*, XIX (1939), 244, 448, and 729.

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[36] Reichs-Kredit-Gesellschaft, *Economic Conditions in Germany in the Middle of the Year 1939*, p. 44.

the sense that, without them, the circulation of short-term bills would have increased even more than it actually did. Although the available statistics do not separate the special bills and work creation bills from the private commercial bills, the League of Nations indicates that "it is generally believed that, as a result of the growing liquidity of private business, the latter (private commercial bills) have greatly decreased in importance since 1931 and have come to constitute only a minor portion of the total." On this basis it is suggested that "the consolidation loans have been, on balance, an additional source for covering current expenditure rather than a means of actually consolidating—and therefore reducing—the floating debt."[37]

Government Borrowing during Period of Full Employment, April, 1938-August, 1939. The preceding section indicated that in spite of large "consolidation" issues, the Nazi government had to meet a considerable part of its deficit from 1935 to 1938 by means of short-term financing through the banking system, largely in the form of special bills. In the early part of 1938, however, the approach of the economy towards full capacity, and the resulting fear of inflation in many quarters, led to a change in policy.[38] Before the annual meeting of the Reichsbank on March 11, 1938, its president outlined a new course to be followed. The financing of armaments by special bills was to be discontinued as of the beginning of the new fiscal year, April 1, 1938; thereafter public funds were to be obtained from current revenues (taxes and customs) and from long-term loans on the capital market. To the Reichsbank was assigned the task of "working off" the volume of special bills not already in its possession. As soon as those in the hands of commercial banks and private individuals fell due (it will be recalled that they were six-months bills), the Reichsbank redeemed them out of funds provided by the issue of "Block Bills" *(Blockwechsel)* and "Sola Bills" *(Solawechsel)*. Block bills were certificates issued by the Reichsbank in exchange for large blocks of maturing special bills. Running for the most part between three and twelve months, renewable, carrying an interest in June, 1939, ranging from 3 per cent for three-months

[37] League of Nations, *Money and Banking 1937-38* (Geneva, 1938), I, 56-57.
[38] League of Nations, *Money and Banking 1938-39* (Geneva, 1939), I, 56.

bills to $3\frac{9}{16}$ per cent for twelve-months bills, they were held largely by the commercial banks. There is no information concerning the amount of Block bills issued. The Solas were three-months bills issued since 1935 by the Gold Discount Bank, a subsidiary of the Reichsbank, in order to provide a profitable temporary investment for the excess funds of the commercial banks and at the same time to obtain financial means for the purchase of work creation bills which often accumulated at the Reichsbank. Since both the Sola bills and Block bills were highly liquid banking assets eligible for rediscount, their substitution for special bills actually meant only a formal withdrawal of the latter.[39]

To facilitate the transition from short-term financing to a dependence upon current revenue and long-term capital, a new type of short-term bill, the "Treasury delivery bill" *(Lieferungsschatzanweisung)*, was introduced.[40] It proved to be just another variation of the short-term "pre-financing" which the Nazis had been using all along, its most significant differences being those designed to limit the possible credit expansion in the economy. Unlike special bills, Treasury delivery bills could be issued only by the Treasury,[41] and only for six months, after which they were to be funded out of the proceeds of long-term loans. Nor were they eligible for rediscount, as were the special bills; they could, however, be used as collateral for Reichsbank advances up to 75 per cent of their value. But since the interest rate charged by the central bank for advances was 5 per cent, as compared with the 4 per cent discount rate on bills, the banks whenever they were in need of funds would prefer to hold delivery bills, and send to the Reichsbank other bills, which were discountable.[42]

[39] *Ibid.*, I, 58; and Reichs-Kredit-Gesellschaft, *Economic Conditions in Germany in the Middle of the Year 1939*, p. 48.

[40] League of Nations, *op. cit.*, II, 81 ff.

[41] W. G. J. Knop, *The Banker*, London (May, 1938, p. 123), asserts that Dr. Schacht himself was responsible for the new instruments of finance "with the intention of creating an instrument of central financial control and in the hope that he might be intrusted with its direction. For one of the great weaknesses of the special bill system is its complete decentralization. 'Special bills' are issued independently by the various Government departments and all they have to do is to notify the Reichsbank of the amount issued." Under the delivery bill system government departments desiring to spend over and above their allotted budgets had to apply to the Treasury Department for funds. As matters turned out, however, Schacht was not intrusted with the direction of the new centralized policy.

[42] Since Treasury delivery bills could not be rediscounted, every investment in them tended to decrease the liquid assets of the investor. German banks keep only a small amount of cash and rely extensively on rediscounting; their credit policy is affected more by the size of rediscountable assets than by the size of cash reserves (League of Nations, *op. cit.*, I, 56).

But the delivery bills were similar to the special bills in that they were given in payment usually as part of the total payment due for public works and armaments. The contractors, who had to accept them, took them in payment at 3 per cent less than their face value, but themselves had to pay 3.5 per cent if they discounted them at their banks.[43]

Originally conceived as a purely temporary measure, the Treasury delivery bills were to be issued only in amounts that could be fully repaid at maturity, evidently by recourse to the capital market. But the annexation of Austria and the intensification of military preparations during and after the Czechoslovakian crisis in the autumn of 1938 upset all previous calculations as to revenue requirements.[44] The need for additional revenue, coming as it did at a time when the capital market was showing signs of hardening,[45] forced the Reich to issue many more delivery bills than it had contemplated. Moreover, a considerable increase in other noninterest-bearing Treasury bonds of the Reich took place in the same period.[46] Mention has previously been made (Table I)[47] of the large increase in the volume of 4.5 per cent Reich long-term loans floated during the period under discussion (April, 1938-April, 1939). In addition, reports that government departments, the army in particular, were paying for goods in "acknowledgment vouchers," merely took official cognizance of the debt. Making their first appearance in November, 1938, they were estimated five months later at about 1,000 million reichsmarks.[48] All in all, therefore, this period, like its predecessors, was marked by a further increase in the short- and long-term debts of the Reich.

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[43] Reichs-Kredit-Gesellschaft, *Germany's Economic Situation at the Turn of 1938-39*, p. 90.

[44] *Ibid.*, p. 85, where explicit reference is made in this connection to "the incorporation of the Eastmark," the "reconstruction of Sudentenland," the "increased armament production within the former Reich itself," and the "fortifications on the Western frontier."

[45] See *Weekly Report of the German Institute for Business Research*, Aug. 11, 1939. It is reported that the last of the 4.5 per cent bond issues floated in 1938 was undersubscribed, and that the banks had difficulty placing their quotas. There was, moreover, a decline in the quotations for 4.5 per cent public and semipublic bonds; the index was 100.05 in April, 1938, fell to 99 in January, 1939, and to 98.95 in August, 1939; and might have fallen further were it not for the open-market operations begun by the Reichsbank in January, 1939 *(Wochenbericht des Instituts für Konjunkturforschung*, XII, 1939, 151 and 219*)*.

[46] Reichs-Kredit-Gesellschaft, *Economic Conditions in Germany in the Middle of the Year 1939*, pp. 44 and 49.

[47] See p. 288.

[48] *The New York Times*, March 5, 1939. According to the correspondent, about 500 million reichsmarks had been used by the recipients as collateral for loans from banks. The Reich gave assurances that the vouchers would be honored in time. In effect, therefore, the Reich was insisting upon an interest-free loan from the firms supplying merchandise.

The circumstances which compelled the Reich to issue more delivery bills than it had intended, eventually led it to discontinue their issuance. Designed as a stop-gap during what was expected to be a transition phase in German finance, the delivery bills were not equipped for the situation which confronted them. The era of complete dependence upon current revenue and long-term capital, which they were supposed to usher in, never came. Instead, the German economy found itself face to face with extraordinary revenue requirements and dwindling sources. Any considerably larger dependence upon taxation was hardly possible during time of peace. The capital market for governments had evidently deteriorated.[49] The economy was too close to the limits of its productive capacity to risk a wholesale expansion of credit through the banking system. The condition of the German economy and of the financial system, at the time of the introduction of the New Finance Plan, is described by the Reichs-Kredit-Gesellschaft as follows: "There can be no question that the more than average exertions which have been imposed upon all available economic resources during the last twelve months are now genuinely close to their limits. The strains which have made their appearance in the field of prices, incomes, and consumption clearly point to this conclusion."[50] Further dependence upon delivery bills was undesirable if only because they were becoming troublesome. Their six-months maturity, for example, forced the Reich to use large sums to meet the short-term debt at a time when the demand for funds for other purposes was overwhelming.

As a result, the New Finance Plan was introduced on March 20, 1939, to become effective as of May 1 of that year.[51] Designed to tap new sources of revenue, it was very detailed and

[49] It is interesting to notice the euphemisms used by Nazi publications to keep the outlook bright regardless of the circumstances. The inaccessibility of the capital market at this time is described as follows: "The absorbing capacity of the bond market was subject to fluctuations which became of greater importance as the circulation of Reich loans increased. The state could not allow its consolidation requirements to be exposed to the accidents of such fluctuations . . . it also did not seem practical to shut off from the capital market private business and other branches of public administration. . . . This made necessary a fundamental change in the method of financing. The basic idea of the new finance plan is to open the capital market more and more to private industry" (*Supplement to the Weekly Report of the German Institute for Business Research*, April 20, 1939, p. 2).

[50] *Op. cit.*, p. 43.

[51] *Reichsgesetzblatt*, 1939, I, 561.

complicated.[52] The treatment here is restricted to the more important aspects of the borrowing program. The 4.5 per cent long-term Reich Treasury bonds were no longer to be offered for subscription in the open market. Instead, long-term loans were to be placed directly with institutions like insurance companies and savings banks, in amounts adjusted to the volume of long-term capital accumulated by them. The Treasury delivery bills, all of which fell due some time between May and October, 1939, were to be withdrawn as they matured. In their stead was to be issued an increased volume of noninterest-bearing Treasury bonds, and two types of tax-credit certificates which resembled those issued in September, 1932, in name only. The tax certificates, which constituted the backbone of the New Finance Plan,[53] were the short- and middle-term instruments which continued the tradition of "pre-financing" begun in 1933, and provided a method of borrowing that was completely independent of conditions in the money and capital markets.

Type I of the tax-credit certificates were noninterest-bearing and could be used at face value for the payment of all taxes and customs, seven months after issuance. Type II had to be held for thirty-seven months after issuance before they were acceptable in payment of taxes and customs, but they were then accepted at a premium of 12 per cent,[54] and were eligible as collateral for bank loans. Provinces, municipalities, the Reich, the Nazi party, the Reich Post Office, the Reich Railways, the Hermann Goering Works, the Automobile Road Organization, the public utilities, and other public law institutions all paid for 40 per cent of their orders (where the payment was over 500 reichsmarks) in tax-credit certificates, 20 per cent in Type I, and 20 per cent in Type II. The above ordering agencies purchased their tax certificates from the Reich for cash, thus putting at the disposal of the government any liquid assets they might have accumulated. Ultimately the loan was made by the suppliers of goods, which was in keeping with one of the major purposes of the certificates, "to effect a maximum immobilization of liquid industrial funds,"[55] especially those funds which had previously been used in ways considered undesirable. It seems that in spite of the numerous direct controls over investment, labor, and raw materials, many firms had been able to self-finance projects which the Nazis would have preferred to see postponed.[56] The idea now was to induce entrepreneurs to tie up in tax certificates the funds that might otherwise be "misused."

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[52] See, for example, Reichs-Kredit-Gesellschaft, *op. cit.*, pp. 44-46, and F. Terhalle, "Der Neue Finanzplan," *Jahrbücher für Nationalökonomie und Statistik*, CXLIX (1939), 682 ff.

[53] See p. 305.

[54] Although this corresponded to an annual yield of 3.8 per cent, the government did not reduce its interest burden compared with that of its regular 4.5 per cent loan. For the special depreciation privileges granted to the holders of Type I certificates (see pp. 305-306) were undoubtedly worth more than the customary interest return. The Berlin correspondent of the *Statist* (London) (CXXXIII, 1939, 401) estimates that this privilege was "tantamount to the payment of from 5 to 10 per cent for the first year, the interest to depend on the rate of income tax to which the manufacturer is liable." A later issue of the *Statist* (CXXXIV, 1939, 484) revises the estimate to between 10 and 17 per cent per annum.

To make the certificates a particularly attractive investment, and to encourage entrepreneurs to hold them as long as possible, they were assigned special characteristics. Type I certificates entitled their holders to tax relief through an additional depreciation allowance in their income or corporation taxes. The size of the allowance increased with the number of years the certificates were held consecutively.[57] Both types of certificates were recognized as legal tender for payments between enterprises in industry, handicraft, and commerce. The latter were compelled to accept them from each other for 40 per cent of any amount due for goods delivered or services performed, thus making them a means of payment within industry. The certificates were not, however, permitted to pass over into the field of incomes and consumption, or to agriculture.[58] Both types of certificates were handled like securities, especially Type II, which were bought and sold in over-the-counter trading and for which there were official quotations.[59]

It was perfectly apparent that use of tax certificates meant an increase in the means of payment, but the possibility of inflation which had troubled the Nazis early in 1938, as they approached the limits of their productive capacity, was no longer a source of concern. They felt that the credit expansion represented by the certificates would be neutralized by the expansion of production in Austria and the Sudetenland[60] and, to some extent, by the elimination of a large part of the previous self-financing expenditures.[61] They did, however, take the precaution of specifying that the tax-credit certificates could not be discounted at the Reichsbank.[62] At the end of 1939 there were 4,672 million reichsmarks of certificates outstanding.[63] The outbreak of war, and the inability to maintain the market value of the tax certificates without extensive purchases by the Reichsbank, forced the Reich to discontinue them by November 1, 1939, and thereafter to effect most of its borrowing through interest-bearing Treasury bills. On April 1, 1940, tax-credit certificates were deprived of their quality of being a means of payment.[64]

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[55] Reichs-Kredit-Gesellschaft, *op. cit.*, p. 45.

[56] *Supplement to the Weekly Report of the German Institute for Business Cycle Research*, Aug. 11, 1939, p. 2.

[57] For further details on these depreciation allowances, see pp. 305-306.

[58] Reichs-Kredit-Gesellschaft, *op. cit.*, p. 45.

[59] *Supplement to the Weekly Report of the German Institute for Business Research*, Aug. 11, 1939, p. 1. As a result of the fall in the market value of Type II certificates, they became highly attractive investments, at times yielding over 6 per cent. In order to hold them, firms were ready to increase their indebtedness to the banks, or, more often, to reduce their liquid bank balances. See League of Nations, *Money and Banking 1939-40*, I, 10.

Government Borrowing after the Outbreak of War. "Silent financing" is the term frequently employed in Nazi literature to describe the method of borrowing used after the outbreak of war.[65] The procedure was fairly simple and was carried through with the help of the various credit and banking institutions, which, the reader will recall, were completely dominated by the government. During the first three and a half years of war,[66] the general public was not even asked to subscribe to war loans. Since production and investment had been directly controlled for years and consumers' goods were rigidly rationed when war broke out, the government evidently felt secure in the knowledge that the ways in which individual and corporate incomes could be spent were narrowly circumscribed. Moreover, an increasingly large part of these incomes was channeled into the Treasury through the tax system, which was amended for that purpose at the outbreak of war and again later.[67] Whatever individual or corporate income was not taxed away and could not be used for consumption or approved investment, would, it was felt, find its way necessarily to the various credit institutions, where it could be reached easily by the government. The Reich Treasury, in fact, tapped these sources regularly. It borrowed also directly from the Reichsbank, but actually much smaller amounts than from the other credit institutions.

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[60] *Supplement to the Weekly Report of the German Institute for Business Research*, April 20, 1939, p. 4.

[61] *Ibid.*, Aug. 11, 1939, p. 4.

[62] Reference is made elsewhere (see p. 293) to the fact that Type II certificates were eligible as collateral for Reichsbank loans. It seems likely that their use as collateral was permitted because there was no assurance that tax certificates, distributed as they were, would automatically find their way only to enterprises liquid enough to hold them until the date of maturity.

[63] League of Nations, *Money and Banking 1939-40* (Geneva, 1940), I, 10 and 53.

[64] Bank for International Settlements, *Tenth Annual Report* (Basle, 1940), p. 113.

[65] We have used for our analysis, besides the various publications of the *League of Nations* and other literature specifically quoted, the *Tenth, Eleventh,* and *Twelfth Annual Report* of the Bank for International Settlements (Basle, 1940, 1941, and 1942), and *Die Wirtschaftskurve,* XX (1941), 153-154.

[66] Our information covers Nazi war finance until about the beginning of 1943.

Wartime borrowing has been carried through on a short- and long-term basis. The short-term instruments for raising funds were Treasury notes and rediscountable Treasury bills, which were sold currently to the commercial banks, allegedly to absorb only the savings accumulated there. Long-term issues consisted of marketable, interest-bearing Treasury certificates and so-called "Li-loans" which the Treasury sold to savings banks, private and public insurance corporations, co-operatives, etc. Some of the Treasury bills and certificates were "purchased" by the central banks and credit institutions in the "Protectorate" of Bohemia and Moravia (Czechoslovakia) and other neighboring countries. Short-term loans were also "granted" to the Reich by the various Reich Credit Offices, the special banks of issue created for the occupied territories. At the end of March, 1942, the total amount of such loans was estimated at 5.3 billion reichsmarks. None of the long-term issues were ever offered to the public; no syndicates were organized to place them. So firm was the hold of the Treasury on the credit institutions that these customary procedures were superfluous. It has been estimated that at the most only 20 per cent, and probably less, of all the funds borrowed by the Reich between August, 1939, and December, 1941, were supplied directly by the public.[68] The earlier issues of Treasury certificates (March and May, 1940) matured after 5 and 10 years, respectively; later issues (since September, 1940) after 21 years. Those issued before 1941 paid 4 per cent interest; later issues, 3.5 per cent. Li-loans were issued in bonds of 20-30 years maturity and, as in the case of the Treasury certificates, paid lower rates of interest as time passed. The original rate was 4.5 per cent, but declined to 4 and later to 3.5 per cent.

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[67] See pp. 316-318.

[68] Bank for International Settlements, *Twelfth Annual Report*, p. 122.

This brief analysis of the increase in Germany's public debt since August, 1939, makes it obvious that the methods of borrowing during the war period were basically no different from those used for the preparation of the war: the government relied largely on credit institutions other than commercial banks for the absorption of long-term loans, and for short-term funds on the commercial banks, which were helped, if necessary, by the rediscounting facilities of the Reichsbank. The government did not need to revive the unpleasant memories of the 1914 war loans by appealing to the public for funds. The system of controlled production and consumption made it increasingly unlikely that any significant part of the national income would be spent for purposes which might interfere with the war economy. It was not until the third year of war that the government felt the need to urge an increase in the total money savings in the economy. To add to the forces already at work to induce savings, the decree of October 30, 1941, concerning the "guidance of purchasing power" was issued, and in it the government provided incentives for increased savings by wage and salary earners and entrepreneurs.[69]

Wage and salary earners were invited to participate in a scheme of "iron savings." Deducted weekly or monthly from regular wage and salary payments and transferred to local credit institutions, these iron savings were originally not to exceed 26 reichsmarks a month for an individual. Later the maximum was raised to 39 reichsmarks. In addition to paying current interest equivalent to that paid on savings deposits of at least one year duration, iron savings were made attractive by an automatic reduction in the saver's tax liabilities, but they could not be withdrawn until after the war, and then only upon one year's notice. The portion of an individual's income thus saved enjoyed complete exemption from the income tax, wage tax, and social insurance contributions. The exemption from the income tax meant, according to estimates, that about 15-20 per cent (in some cases much more) of an individual's credit on his iron savings account represented a gift to him by the government,[70] the reduction in his taxes coming to approximately that. From the point of view of the government, the tax reduction meant that the war was being financed to a larger extent through borrowing and to a smaller extent through taxation. The results of iron savings were said to be rather disappointing during the first year of its operation,[71] and when the scheme was extended in November, 1942, the monthly revenue amounted to only 70 million reichsmarks. For the entrepreneurs there was a similar scheme. They could make deposits with the Treasury which were blocked for the period of the war, which would bear interest only after the end of the war, and which could be withdrawn upon application after the war for making belated replacements and repairs and for replenishing the depleted inventories in raw materials or semifinished goods. In either case, the depositors were to be granted certain tax privileges after the war. The deposits on blocked accounts could amount to 50 per cent of a firm's depreciation allowance in 1940 or, in the case of commodities, to 20 per cent of its holdings of raw materials and semifinished goods as assessed in its tax return for 1938 (or for the average of 1937-39). No information is available as to whether the operation of the scheme was considered successful. Obviously not satisfied with this voluntary scheme for entrepreneurs, the government, in the spring of 1942, made it compulsory for entrepreneurs to deposit part of their profits with the Treasury for the duration.[72] All entrepreneurs whose income amounted to at least 30,000 reichsmarks in 1941 (about 25-30,000 firms) were to deposit part of that income with the government if it exceeded their 1938 income (or the 1936-38 average) by at least 50 per cent. Individual entrepreneurs had to deposit 25, corporations 30 per cent of the income in excess of 150 per cent of their income in the base period. The Treasury was to decide after the war what use to make of the funds thus accumulated.[73] In cases of emergency, entrepreneurs could obtain loans from the fund up to 50 per cent of their deposits at an interest rate of 3.5 per cent. Since the "excess" income continued to be taxed also under the regular income and corporation tax laws (normal rate and surtax), the total curtailment of the "excess" income (tax and deposit) was very high. The maximum was fixed at 90 per cent.[74]

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[69] We are describing the provisions of the decree as amended on Dec. 10, 1942 (*Reichsgesetzblatt*, 1942, I, 691).

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[70] Bank for International Settlements, *op. cit.*, p. 122.

[71] *Economist*, CXLIII (1942), 608.

[72] Decree of March 31, 1942 (*Reichsgesetzblatt*, 1942, I, 162).

[73] The government also hoped that the curtailment or postponement of profits attempted by the scheme would be an additional incentive for entrepreneurs to comply with price regulations (see p. 270).

One other scheme which the government used in the autumn of 1942 for obtaining funds should be mentioned, for it followed a rather unusual pattern.[75] It was rather a variation on borrowing methods used in the prewar period, methods of creating private debts for the benefit of the government instead of showing them as increases in the public debt. Thus, instead of the tax on landlord's inflation gains heretofore in effect, landlords were compelled to make a capital payment to the government amounting to ten times the annual tax assessment. This, known as an "equalization payment," was to be completed by the end of 1942. To some extent these payments were expected to come out of funds not being used by the landlords, and hence to mop up idle cash. But for the most part, it was realized that landlords would have to borrow to make the necessary payments; mortgage banks, savings banks, and insurance institutes were authorized to loan funds to the landlords at 4.5 per cent interest and 4 per cent amortization and to issue mortgage bonds in financing the loans. In this way the Treasury swelled its revenue, supposedly by 8.5 billion reichsmarks, through the simple expedient of increasing the indebtedness of private debtors to credit institutions. Instead of the government borrowing from the banks private individuals did, paid the money over to the Treasury, and thus provided the government with funds without affecting the public debt.[76] It is interesting to note that a landlord who borrowed the entire equalization amount due, would have had to pay in the first year an amount equal to 85 per cent of his old tax, and gradually less every year thereafter.

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[74] H. W. Singer, "The German War Economy, VI and VII," *Economic Journal*, LII (1942), 202-203 and 397.

[75] *Economist*, CXLIII (1942), 306 and 486.

[76] Another step to curtail public borrowing was taken when the government ordered that, as of Oct. 1, 1942, advance payments on armament orders which had customarily been made, were no longer permissible. It was estimated that they had amounted to 3.5 billion reichsmarks, which meant that the increase in the public debt in the autumn of 1942 was by that amount smaller than it otherwise would have been (*Wirtschaft und Statistik*, XXIII, 1943, 105).

Size of Borrowing. Using the manifold methods of borrowing which are described in the preceding section, the Nazi government built up a heavy debt in its first ten years of administration. It is impossible, however, to give a comprehensive picture of the total debt accumulated by Germany during this period. The only complete figures available are those of the "declared" debt, i. e., the officially admitted debt, which may very well have been distorted by the Nazis. These figures are given in Table 2, where we have also shown the year-to-year development. The table refers to the Reich only; the picture would not materially change if states and local governments were included. As war preparations gained momentum, the debt of the government grew more and more. This growth would become far more evident if we could include the "undeclared" debt, those many billions of reichsmarks which the Nazi government borrowed in applying the ingenious techniques and devices discussed before. We have come to the conclusion that no estimate is possible which would justify any confidence. The Nazis started to borrow clandestinely immediately upon coming to power, and they have continued doing so right up to the present. And since they used so many different devices and changed their techniques so frequently, they succeeded in keeping part of the public debt unknown and beyond conjecture.[77]

In the first five years of Nazi rule, the official Reich debt has grown slowly compared with later developments. In the subsequent two fiscal years (of which the last seven months, however, were war months) the admitted Reich debt more than trebled. It would appear from these figures that the short-term debt did not really start increasing before 1938-39 and that it was not until the year 1942-43 that the total floating debt finally exceeded the consolidated long-term debt. Since the undeclared debt, undoubtedly, was mostly of a short-term nature, the official figures are highly misleading and conceal the fact that Germany considerably increased her short-term indebtedness ever since she started preparing for war. This was even more true as the war pro-

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[77] The Treasury made public an estimate of the undeclared debt for the period March, 1933-June, 1935; the estimate was 4 billion reichsmarks, while the official Reich debt increased by only 0.3 billion in the same time (*Wochenbericht des Instituts für Konjunkturforschung*, VIII, 1935, 185).

TABLE 2

OFFICIAL REICH INDEBTEDNESS, 1933-1943*
(Billions of Reichsmarks)

March 31	Official Reich Debt				Total Debt Increase During the Preceding Fiscal Year
	Short Term	Long and Medium Term	Other†	Total	
1933	1.5	2.7	8.1	12.3	. . .
1934	1.9	3.6	6.9	12.4	0.1
1935	2.4	4.4	5.8	12.6	0.2
1936	2.9	6.0	5.5	14.4	1.8
1937	2.4	8.8	5.1	16.1	1.7
1938	2.3	12.0	4.9	19.2	3.1
1939	6.5	19.6	4.6	30.7	11.5
1940	22.0‡	25.2	4.4	51.6	20.9
1941	41.7‡	43.3	4.2§	89.2	37.6
1942	70.3‡	67.2	3.9§	141.4	52.2
1943	107.9‡	68.3	3.7	199.9	58.5

*Sources: *Statistisches Jahrbuch für das Deutsche Reich*, LIV (1935), 455; LVII (1938), 514-515; *Wirtschaft und Statistik*, XX (1940), 158, and XXIII (1943), 145; Bank for International Settlements, *Eleventh Annual Report* (Basle, 1941), p. 113, and *Twelfth Annual Report* (Basle, 1942), p. 120.

†Pre-1924 domestic and foreign debt and new foreign debt.

‡Includes tax-anticipation certificates.

§Estimated.

gressed. The creation of new money instruments for occupied territories, forced loans by central banks of these territories, commutation of taxes into so-called capital payments, compulsory and semicompulsory deposits by entrepreneurs and wage earners with the government, and various other devices increased the financing of the war through short-term instruments much more than the official figures admit. But even according to the official statistics, in 1942-43, the increase in the floating debt was almost twice as large than the rise in long-term loans. By March, 1943, the officially admitted total debt of the Reich had reached the large amount of 200 billion reichsmarks, or about sixteen times as much as a decade before. Although the significance of the data for the period after 1939-40 is even more limited than Nazi information about borrowing in preceding years, the figures at least indicate the trend of the development and the tremendous increase in the public debt during the war.

TAXATION

The German Tax System at the Beginning of 1933. The tax system existing toward the end of the Weimar Republic was based mainly upon the Erzberger Tax Reform of 1919-1920. This reform transferred significant tax powers from the states to the Reich on the ground that financial burdens accruing from the World War required a centralized tax policy. The Reich, previously dependent chiefly upon customs and excise duties, acquired authority to levy taxes on income and property (wage tax, income tax, property tax) as well as many taxes on trade (turnover tax, transportation tax, motor vehicle tax, land purchase tax, etc.). States and local authorities retained for the most part only taxes on real estate (land and building tax) and gross business receipts (business tax). To these were added a few small consumption taxes (taxes on meat, beverages, etc.) and, after the inflation period, the tax on landlord's inflation gains (called the house-rent tax in Prussia). In return for the taxes surrendered, states and local authorities received part of the tax receipts collected by the Reich deliberately in excess of its own requirements. They thus shared on a percentage basis in the Reich receipts from the income, wage, corporation, and turnover taxes. The entire yield of some smaller taxes (land purchase tax and tax on racing bets) was also turned over to the states and local authorities after deduction of a percentage for cost of collection.

The principal features of this tax system remained unchanged during the entire period from 1920 to 1933. The Erzberger Tax Reform had been based on the principle that all potential tax sources must be utilized. Accordingly, the new tax system left no part of the field uncovered and later offered little opportunity for the introduction of new taxes. The most important Reich taxes at the beginning as well as at the end of the period were: the income tax,[78] general property tax,[79] turnover tax,[80] tobacco tax, and customs duties.[81] The most significant additions to Reich taxes during the period from 1920 to 1933 were: (a) the special assessment on industrial property (1924), originally levied to raise fixed annual sums for reparation payments, and (b) the crisis tax (1931),[82] proceeds of which were to defray part of the unemployment burden. In the state and local financial system, taxes on real estate[83] and gross receipts of business[84] were the most important levies, while the citizen tax[85] was the most significant addition (1930) in local taxation during the years of the Weimar Republic.

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[78] Besides some smaller levies, the income tax consisted of three chief taxes: the wage tax, the assessed income tax, and the corporation tax. (a) The wage tax was deducted from all wages and salaries at the source. Prior to 1934, the rate was 10 per cent. But since exemptions were granted to all taxpayers, the real burden never reached 10 per cent. The rate was raised in 1934 to as high as 15 per cent. Special exemptions were granted for wife and children. Incomes exceeding 8,000 reichsmarks were subject to the assessed income tax, in addition to the tax levied at the source. (b) The assessed income tax was imposed upon all individual incomes, except wages and salaries below 8,000 reichsmarks. Before 1939 rates were as high as 50 per cent for bachelors and 40 per cent for married persons; then they were raised as high as 55 per cent. Special exemptions were granted for families. (c) The corporation tax was a tax on income earned by corporations. In 1933 the basic rate was 20 per cent. In 1936 it was raised to 25 per cent; in 1937, to 30 per cent. A further increase to 35 per cent was decreed for 1938 for incomes exceeding 100,000 reichsmarks. It was raised to 40 per cent for 1939 and 1940.

[79] The property tax was a tax upon all property of any kind (except furniture and

German Taxes and Tax Policy, 1933-39. 1. Tax Policy as an Instrument of Economic Control. When the Nazis seized power, they did not change the tax system to any considerable extent. They disappointed many of their adherents by not embarking upon some radical reorganization of the tax system. The retention of the existing tax system may be partly explained by the fact that the Nazis inherited a tax system of great flexibility. Because of its comprehensiveness large additional tax revenues would automatically accrue with a rise in national income. The basic principles of the system were conceived at a time when Germany was confronted with an unknown amount of reparation payments; they were designed to tap considerable amounts of the national income for this purpose. After this expenditure had been eliminated in 1932, the existing tax system was in a position to yield large amounts of revenue to finance

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personal belongings). The tax was purposely fixed at the low rate of 0.5 per cent in order to allow the property owner to pay the tax out of the income from the property.

[80] The turnover tax was levied upon each sale of a commodity. The rate changed several times; it was 2.5 per cent from 1924-26; 0.75 per cent from 1926-30; thereafter, 2 per cent. Since each sale transaction involving the commodity was taxed, the total tax burden by the time of final sale was much larger than the above rates suggest.

[81] Taxes on tobacco and customs duties were similar to the respective institutions in the United States.

[82] The crisis tax was first introduced in 1931 and was conceived as an additional income tax to raise funds for unemployment relief. In 1934 it was combined with the wage and income taxes.

[83] The real estate tax was imposed upon real estate and building of any kind, usually without any consideration for the economic situation of the owner. Until 1937, when a unified tax for the entire Reich was created, the real estate tax varied with each state.

[84] The business gross receipts tax was imposed upon the gross receipts of business (except agriculture) unlike the corporation tax which was levied on net income only.

[85] The citizen tax originated in 1930 as a poll tax. It was later changed, and became a tax on individual incomes with rates varying between 6 and 1,000 reichsmarks (since 1931: 2,000 reichsmarks; since 1937: 4,000 reichsmarks).

preparations for a new war as soon as Germany would be able to increase her national income and to curtail the outlay for unemployment. There is probably another reason for the failure of the Nazi government to modify the tax system to any considerable extent. In a controlled economy, direct intervention by the government often makes it unnecessary to use taxation as an instrument of economic control, such as regulation of consumption, distribution of income, formation of capital, etc. Insofar as the Nazis used tax policy for general economic purposes, they had three major objectives: (a) to stimulate employment, (b) to increase the population, and (c) to facilitate rearmament.

Stimulation of Employment. As far as tax policy was concerned, the Nazis attacked the problem of unemployment that confronted them in the early years of their regime through special depreciation allowances and tax abatements. Tax regulations in regard to depreciation allowances dealt with (1) replacements and repairs and (2) semidurable equipment. A new law of 1933 permitted the complete writing-off in the respective year of any outlay for the purchase or production of industrial or agricultural machines, tools, and similar equipment, provided that the expenditure was incurred for the purpose of replacements and repairs, and that certain other conditions obtained: (a) the new equipment was a domestic product; (b) the taxpayer had purchased or produced the new equipment after June 30, 1933, and before January 1, 1935; (c) the new equipment replaced equipment of the same kind formerly used in the same plant; (d) the use of the new equipment did not reduce employment in the taxpayer's plant.[86] This regulation did not apply to fixed capital equipment, such as buildings and structures, livestock, or to rights, such as patents, etc. Repairs and improvements of commercial buildings, and later other buildings, were given preferred tax treatment for the same period (June 30, 1933-January 1, 1935) as provided for in the general law on replacements and repairs just mentioned, under the Law on Tax Abatements of July 15, 1933.[87] Ten per cent of the outlay for such improvements could be deducted from tax assessments in each of the next two years. The measure was considered temporary from the start, and was given

[86] *Reichsgesetzblatt,* 1933, I, 323.

[87] *Ibid.,* I, 491, and 1934, I, 318.

up two years later when activity in the construction industry had greatly improved. The relative insignificance of this law is indicated by the fact that the Treasury estimated the loss in government revenue at about 25 million reichsmarks annually.[88]

In contrast to the much less liberal provisions of the existing regular income tax law, businessmen and farmers who kept the proper books were permitted in 1934[89] to write off depreciation for capital equipment, the durability of which usually did not exceed five years, either completely in the year of purchase, or in equal or unequal amounts spread over a period of five years or less. These allowances were effective without time limit, and covered all industrial and agricultural semidurable equipment, whether used for replacements and repairs or not. Later, when the economy was approaching full employment, the law was changed, and its provisions were narrowed. In contrast to the previous regulations, only certain types of equipment were then classified as semidurable: trucks, commercial trailers, buses (to encourage the automobile industry), tractors and tugs, and all capital equipment, the purchase price or production cost of which did not exceed 200 reichsmarks.[90] Special provisions were enacted for agriculture.

Further possibilities of writing off depreciation were created by the New Finance Plan in 1939, which introduced two different types of tax-credit certificates.[91] If entrepreneurs held tax-credit certificates No. 1, which were redeemable at par (as tax payments) seven months after issuance, for at least ten months, they could assign to depreciation for semidurable capital equipment as much as 20 per cent of these certificates, thus reducing correspondingly the income or corporation tax base. The rate was increased by 5 per cent for every additional year, up to a maximum of 35 per cent. Such depreciation could be taken in addition to normal depreciation under the income or corporation tax laws without consideration of the lifetime of the equipment or of the period of its purchase. Since the New Finance Plan was discontinued on November 1, 1939, no more tax-credit certificates were issued after that date. The maximum amount of depreciation that could possibly have been written off under the law was 400-500 million reichsmarks.[92]

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[88] Far more significant was the direct stimulation to repairs and improvements of buildings by the Law to Reduce Unemployment of Sept. 21, 1933 (*Reichsgesetzblatt* 1933, I, 651). On the basis of this law the Treasury was empowered to grant subsidies towards the cost of construction of such projects and the payment of interest on the necessary funds, to the extent of 500 million reichsmarks.

[89] *Reichsgesetzblatt*, 1934, I, 1005.

[90] *Reichssteuerblatt*, XXX (1940), 73, 79.

[91] For a more detailed discussion, see pp. 293-294.

A special tax abatement plan was provided in June, 1933,[93] to encourage the employment of female domestic servants. Each servant up to three persons counted for rebate purposes as an addition to the taxpayer's family. This measure was revoked in 1939, when labor shortage forced a reversal of these policies.

Increase of Population. To facilitate marriages and to encourage large families, taxes were reduced in October, 1934, for those who were prolific.[94] Tax reduction for dependents was augmented under the wage, assessed income, and inheritance taxes, and introduced for the property and citizen taxes. When an increase in the assessed income and wage taxes was considered necessary in 1939, it was applied only to single persons and childless couples. The reduction in the unemployment aid tax in March, 1934, which represented the only basic tax reduction of the Nazi government, consisted almost exclusively of various exemptions for married couples with children.[95] The reduction, effective April, 1934, brought about (a) total exemption of all married persons with three or more children; (b) total exemption of all married persons with one or two children and monthly incomes of less than 500 reichsmarks; (c) total exemption of single persons and married persons without children with monthly incomes under 100 reichsmarks; and (d) certain reductions in the general rate schedule.

Facilitation of Rearmament. In preparing for war, the Nazis were particularly anxious to achieve self-sufficiency in agriculture. They introduced special tax[96] and tariff measures to encourage production in agriculture: (a) the agricultural land tax was reduced in September, 1933, for one year by about 25 per cent or 100 million reichsmarks; (b) the turnover tax on agricultural commodities was reduced from 2 to 1 per cent; (c) tariffs were raised on various import commodities;[97] and (d) a tax of 50 reichsmarks per 100 kilograms was levied after April, 1933, on margarine, artificial fats, vegetable fats, and hardened blubber.[98] This tax was designed to reduce the consumption of margarine and enable the government to improve the price for butter paid to the farmers at the expense of the imported raw materials necessary for the production of margarine.

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[92] *Bank-Archiv*, 1939, 525.

[93] *Reichsgesetzblatt*, 1933, I, 326.

[94] *Ibid.*, 1934, I, 1005, 1052, 1056.

[95] *Ibid.*, 1934, I, 235. The unemployment aid tax was a special duty, the yield of which was not included in the Reich budget before 1934, but went directly to the Reich Office for Employment Exchange and Unemployment Insurance. Beginning Jan. 1, 1935, the unemployment aid tax was made a part of the assessed income tax and the wage tax.

[96] *Ibid.*, 1933, I, 651.

The great significance of motorized equipment for modern warfare was recognized by the Nazis at a very early date. Production of automobiles was consequently encouraged. From April, 1933, on, all new motor vehicles were exempted from the motor vehicle tax.[99] But in later years this exemption was offset by several new automobile duties which did not affect production directly. Import duties and compensatory taxes on petroleum, gasoline, and grease were raised in 1936, in part to aid in financing the construction of Reich superhighways. Also, in 1936, the transportation tax, which the railroad passenger and freight traffic had borne for years, was extended to include the traffic on buses and trucks.[100]

Tax laws affecting firms producing substitute *(Ersatz)* com modities were enacted as early as July, 1933, when the Treasury was empowered to exempt from Reich and state income, corporation, turnover, property, business, and land taxes partly or wholly producers who were engaged (1) in the development of new methods of production, or (2) in the production of new types of commodities, provided the exemption seemed advisable for the good of the whole German economy.[101] The tax exemption was to apply only insofar as turnover, income, etc., resulted from operations pertaining to the development of new methods, etc.; furthermore, this exemption was not to lead to direct competition with enterprises established in Germany before the enactment of this tax law. An official source indicates that these provisions were applied quite frequently during the second Four Year Plan.[102]

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[97] Effective Feb. 15, 1933, the import duty on bacon was raised from 20 to 36 reichsmarks per 100 kilograms, and the import duty on lard from 10 to 15 reichsmarks. The duty on margarine was increased from 30 to 75 reichsmarks per 100 kilograms *(ibid.,* p. 146)

[98] *Ibid.,* p. 206.

[99] *Ibid.,* p. 192.

[100] *Ibid.,* 1936, I, 531.

[101] *Ibid.,* 1933, I, 491.

Import duties were also used to encourage synthetic production of various products. In the case of rubber, an import duty of 125 reichsmarks per 100 kilograms was imposed upon raw rubber in May, 1937. With a fall in the world price of rubber the duty was increased to 170 reichsmarks in March, 1938. The proceeds were used to expand investments for synthetic rubber *(Buna)* production.[103]

Several measures were introduced to encourage the accumulation of stocks in certain goods. For instance, the technique in applying the turnover tax to wholesale trade was changed. The old law concerning the turnover tax provided for complete tax exemption for the wholesale trade when it resold goods without storing them, and full liability for the tax (2 per cent) when it stored the goods. In the turnover tax law of October 16, 1934, the distinction was abolished and a rate of 0.5 per cent was imposed on the entire wholesale trade. In addition, complete tax exemption was granted to wholesale trade in cotton, wool, metals, oil, coal, and other raw materials important to rearmament.

2. *Tax Increases.* In order to stem the catastrophic decline in tax receipts during the depression, various tax rates were raised and various new taxes were introduced. Not only did the Nazi government maintain most of these tax increases and new taxes[104] (while revising and elaborating some of the tax provisions), they also introduced further increases in tax rates. More emphasis, however, was placed on many small changes in tax laws than on any general increase in tax rates. A general change in the tax rates was the increase in the rate of the corporation tax. The corporation tax was raised 25 per cent for 1936 (20 to 25 per cent), and another 20 per cent (25 to 30 per cent) from 1937 on. A further increase was ordered for corporate incomes over 100,000 reichsmarks; the tax rate on them was set at 35 per cent for 1938, and at 40 per cent thereafter.[105]

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[102] *Der Vierjahresplan,* III (1939), 7.

[103] *Wochenbericht des Instituts für Konjunkturforschung,* X (1937), 174.

[104] The citizen tax, for instance, was continued as a kind of income tax; the exemption was increased, and family allowances were introduced.

[105] *Reichsgesetzblatt,* 1938, I, 952.

The extent to which the tax burden was increased by various small changes in various tax laws may be demonstrated by the corporation, turnover, and income taxes. Municipal public utilities and certain mortgage institutions which had previously been exempt from the corporation tax found their exemption canceled in 1934. The same thing happened to consumer co-operatives in 1938. At the same time the tax allowance for reserves and the privilege of carrying losses over from previous year *(Verlustvortrag)* were abolished, the minimum tax for stock companies with limited liability was raised, and the tax exemption for charitable expenditures was eliminated. On February 1, 1938, the privilege of carrying losses over from one year to the next was re-established; but it probably was not frequently used because by that time business activity was at a high level and losses were undoubtedly rare. In October, 1934, regulations with regard to the turnover tax on wholesale trade within Germany, vertically integrated enterprises, the domestic system, department stores, and consumer co-operatives were made more severe. Trade agents, brokers, professional men, and charitable institutions were made subject to the tax.

Several changes were made in the personal income tax. The exemption which farmers had previously enjoyed was considerably reduced in October, 1934; thus many more farmers became liable under the income tax law.[106] Moreover, at the beginning of 1939 additional burdens were imposed upon single persons and childless married couples. The rates for single persons were increased about 12.5 per cent; the maximum rate was raised to 55 per cent. Rates for couples married for five years, with no children, were increased by about 40 per cent. At the same time the tax allowance for the employment of domestic help was abolished, the privilege of deducting the church tax from taxable income was canceled, and the lump sum exemption from the assessed income tax against expenditure for professional purposes and for special purposes was rescinded.

3. *New Taxes (Defense Tax and Income Increment Tax).* The Defense Tax of July 20, 1937, was a typical Nazi tax measure.[107] Every German living in the Reich who was born after

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[106] *Ibid.*, 1934, I, 1005.

[107] *Ibid.*, 1937, I, 821.

December 31, 1912, and had not been called up for military service was liable to pay this tax until he reached the age of forty-five. In the first two years[108] of his tax liability, the levy amounted to 50 per cent of his income tax, but was equivalent to at least 4 per cent of his wage income, or to 5 per cent of other income; in later years, the tax rate was to be only 6 per cent of his income tax (with a minimum of 0.5 per cent of his wage income and 0.6 per cent of other income). In 1938 this tax yielded only 16.6 million reichsmarks.[109]

On March 20, 1939, the increment income tax was introduced as a part of the New Finance Plan,[110] in order to compensate in part for the loss in tax revenue resulting from the issuance of tax-credit certificates under the plan. The parts of the law concerning this tax were completely revised on April 26, 1939.[111] The following description is in accordance with the April revision of the law. All persons, including corporations and wage and salary earners paying income tax, were liable to the increment income tax. Those with limited tax liability under income and corporation tax laws, such as persons with residence outside of Germany who drew some income in Germany, were also liable. These taxpayers were to pay to the Reich 15 per cent of the excess of their income in the taxable year over the income in the preceding year; i. e., the excess income in 1938 over the income in 1937 was subject to the increment tax payable in 1939. Taxes which did not exceed 12 reichsmarks annually (increment income 80 reichsmarks) were not collected. The tax could not be deducted from income or business gross receipts in the assessment of income, corporation, and business gross receipts taxes.

Certain exemptions were allowed. Income increments up to 1,200 reichsmarks were exempt from the levy. Furthermore, taxpayers whose income in the taxable year did not exceed 7,200 reichsmarks and whose incomes in the year preceding the taxable year did not exceed 6,000 reichsmarks were exempt from the tax.[112] For families with several children the basic exemption of 1,200 reichsmarks was raised 900 reichsmarks for the third and each succeeding child. A married man with four children, therefore, was exempt from the increment income tax if his income in the taxable year did not exceed 9,000 reichsmarks (6,000 plus 1,200 plus 2 x 900 reichmarks). The exemption of 1,200 reichsmarks and the additional exemption for children were applied without regard to the size of the income increment.

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[108] The term of military service was two years.

[109] Another typical Nazi tax measure was tax discrimination against the Jews. In addition to greater stringency in the flight tax, which hit almost exclusively Jews (revenue 1932: 0.9 million reichsmarks; 1938: 342.6 million reichsmarks), the Nazis used other taxes to make the Jews a special source of government income. In the assessment of income, property, and citizen taxes, all exemptions and family considerations were removed for the Jews. The special assessment of Jewish property on Nov. 12, 1938, is another example (see p. 318, n. 130).

[110] *Reichsgesetzblatt,* 1939, I, 561. For further details, see pp. 293-294.

[111] *Reichsgesetzblatt,* I, 1939, 829.

In addition to the general exemption, the exemption for children, and the exemption for minimum income, other intricate special provisions determined income increment. Of the variety of deductions permissible in arriving at taxable income increment the following were the most important: (1) Income derived from agriculture and forestry was exempt from tax. Furthermore, any decline in income from these sources was deductible from the total income increment of those filing returns for income from other sources. (2) Income increment could be reduced by an amount equal to the extraordinary income attributable to the taxable year. Extraordinary income was defined as income derived from work extending over several years, or income from the sale of a business, etc. (3) Special income from inheritances, gifts, and other increases in wealth, which occurred in the taxable year, dowries, lotteries, etc., were not counted as part of income increment. Special income, however, was exempt only to the extent that this income did not exceed income from other sources in the year preceding the taxable year. (4) Amounts spent in the taxable year for necessary enlargements of capital equipment were deductible from the income increment. The net amount deductible was equal to the total amount of such expenditures minus regular depreciation for income tax purposes. "Necessary enlargement" meant an enlargement resulting in an increase of production in the plant; it did not include replacements and repairs. This deduction was not permitted if the entrepreneur was receiving some direct or indirect subsidy. (5) The increase in income automatically accruing to a wage and salary earner because of seniority, promotion, or an increase in his family was not counted as income increment. (6) The additional depreciation allowances permitted to holders of tax certificates issued under the New Finance Plan were also deductible from income increment. (7) By a decree of February 17, 1939, taxpayers were no longer permitted to deduct from the taxable income expenses for domestic servants, insurance premiums, interest on debts, church tax, and expenses accruing in the process of earning an income unless these expenditures actually were made. This raised some taxpayers' income increments higher than they otherwise would have been. Any addition attributable to this factor was made deductible. (8) The income tax law permitted the deduction in any one year of the loss suffered in the two preceding years. When this provision gave rise to an income increment which was higher than would otherwise have been the case, the amount of income before deducting losses of preceding years was taken as the base. (9) Certain extraordinary circumstances, such as liquidation of a household, change in fiscal year, or shift in tax liability status, which might have unreasonably increased the income increment, were to be dealt with flexibly.

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[112] *Reichssteuerblatt,* XXIX (1939), 493, 617, 736.

The income increment tax for 1939 was to be paid in three equal installments; the total yield for the year amounted to well over 300 million reichsmarks.[113] On August 21, 1940, however, a decree of the Treasury announced that the tax would apply to the assessment for only the calendar year 1939, and would not be imposed thereafter.[114] A financial journal stated[115] that various reasons led to discontinuing the income increment tax; since rationing of consumers' goods effectively regulated private consumption, the increment income tax was no longer needed to absorb consumer purchasing power; similarly, it was no longer needed to absorb excess profits, since profits during the war were being kept within certain limits through price control and cost accounting regulation; moreover, the assessment of the tax had caused great administrative difficulties.

4. *State and Local Taxes.* The Nazi government attempted to reserve for the Reich the greatest possible portion of any increase in tax revenue that occurred after 1932. States and local

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[113] *Der Deutsche Volkswirt,* XIV (1940), 1745.

[114] *Reichsgesetzblatt,* 1940, I, 1130.

[115] *Der Deutsche Volkswirt,* XIV (1940), 1745.

authorities were consequently kept as short of funds as possible. They were not permitted to increase taxes too much lest they encroach upon the tax revenue of the Reich. At the same time they were prevented from keeping taxes too low lest great discrepancies in the tax burden develop among individual states and among individual local governments. The Decree concerning Municipal Reserves *(Ruecklageverordnung)* of May 5, 1936, dealt with this problem. Every local government was required to establish an operating reserve *(Betriebsmittelruecklage)*, an equalization reserve *(Ausgleichsruecklage)*, and, under certain circumstances, additional special reserves. So long as the minimum requirements for these reserves were not reached, taxes, fees, and contributions levied by the local governments could not be reduced. Reserves so formed were usually invested in Reich securities.[116]

In order to prevent the states and local authorities from exploiting certain taxes excessively, the Reich took over the administration of some state and local taxes and imposed stringent regulations on several others. The Reich took over the tax on meat in 1934 and the peddler tax in 1937; 96 per cent of their yield was transmitted to the states. A Reich document tax replaced the state stamp duties in 1936. The rates of the taxes on real estate and gross receipts of business which were levied by the local authorities were adjusted so as to yield no additional revenue in 1937 and 1938.

After 1934 the Reich consistently increased its own income at the expense of the states and local authorities by reducing transfers to them from Reich taxes.[117] As a result, the revenue of the states and local authorities from Reich transfers increased very little after 1934, in spite of the fact that the total receipts of the Reich rose sharply in these years. Consequently, the percentage of total Reich receipts transferred to states and local authorities declined rapidly during the period, from 30.7 per cent in 1934-35 to 15.8 in 1938-39. After the outbreak of war the share of the states and local authorities in total tax receipts was further reduced.

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[116] By March 31, 1937, these reserves amounted to 2.35 billion reichsmarks; there has been a further increase since that time; see *Bank-Archiv*, 1939, 422-423.

[117] See, for instance, Law of July 31, 1938 *(Reichsgesetzblatt*, 1938, I, 966*)* concerning the corporation tax on municipal public utilities, the income from which was to be transferred to the Reich after 1938, and Law of Sept. 30, 1938 *(ibid.*, p. 1321*)* concerning the local beer tax, the receipts of which were to be transferred up to 96 per cent to the Reich Treasury. The transfer by the Reich of the receipts from the land purchase tax to the states and local authorities was discontinued.

TABLE 3

TOTAL REICH TAX AND CUSTOMS RECEIPTS AND REICH TRANSFERS TO THE STATES AND LOCAL AUTHORITIES, FISCAL YEARS, 1932-33–1938-39*

(Millions of Reichsmarks)

Fiscal Years (April 1-March 31)	Total Reich Tax and Customs Receipts	Reich Transfers to States and Local Authorities	Reich Transfers in Percentages of Total Reich Tax and Customs Receipts
1932-33..........	6,683.0	1,722.9	25.8
1933-34..........	6,876.6	1,924.8	28.0
1934-35..........	8,261.8	2,537.7	30.7
1935-36..........	9,703.9	2,560.3	26.4
1936-37..........	11,487.9	2,635.7	22.9
1937-38..........	14,031.3	2,804.8	20.0
1938-39..........	17,712.1	2,788.9	15.8

*Sources: *Statistisches Jahrbuch für das Deutsche Reich*, LII (1933), 425; LIII (1934), 427; LIV (1935), 449; LV (1936), 468; LVI (1937), 491; LVII (1938), 495, 513; *Reichssteuerblatt*, XXIX (1939), 738. Since 1935-36 figures include the Saar.

5. *Simplification and Improvement of Tax Administration.* Some of the Nazi tax measures simplified the tax system. For instance, the act concerning the real estate and gross receipts taxes of business, passed in 1937, introduced uniformity for the whole Reich. This simplification of the tax plan was prepared under the Republic; the Nazis had only to remove the obstacles in the way of its effectuation.

A significant part of the increase in tax receipts resulted from making the tax administration more effective, something the Nazi government could accomplish with comparative ease because of the extreme power it exercised over taxpayers. The Undersecretary of the Treasury candidly summed up the matter when he stated that the obligation to pay taxes was based not upon a *legal* relationship between the taxpayer and the Treasury, but upon the *power* relationship between the State and the people. While the government under the Weimar Republic was anxious to protect the taxpayer by law against arbitrariness of the tax-administering authorities, the Nazi government was responsible for a systematic deterioration in the position of the taxpayer in relation to the government. The taxpayer not only lost all influence upon tax legislation, but also upon the administration of taxes in which he had participated under the Republic. The Treasury was empowered to change tax laws by decrees and ordinances, and tax lawyers and tax advisers were practically made into an arm of the tax authorities.

A striking example of the Nazi attitude toward the taxpayer is found in the first paragraph of the Tax Adaptation Law *(Steueranpassungsgesetz)* of October, 1934,[118] where the following rule is laid down: "The tax laws are to be interpreted according to the National Socialist Weltanschauung." However curious this statement may sound, it had a very special significance. It is a general clause which gave the Collector of Internal Revenue and the courts a high degree of discretion. This authority was used to administer tax laws so that they would yield the greatest possible amount of revenue. Any attempt at evasion or avoidance of tax payment, even if permissible under the law, could be thwarted. Concealed profit distributions and secret reserves could now be taxed. Official tax reappraisals could be arranged so as to lead to additional burdens. In imposing penalties for tax deficiences the authorities were supposed to evaluate, from a Nazi point of view, the general conduct of the defendant as a citizen. Finally, this provision enabled the tax administration to re-interpret pre-Nazi tax laws in the interest of the Nazi State and thus extract additional revenue on the basis of old tax regulations. It was thus a source of almost unlimited discretionary power.

The Reich Tax Administration was first established in 1919. Disorganized during the inflation period, its reorganization was begun in 1924, and had not been quite completed when the Nazis seized power. The Nazi government made the Tax Administration, which had been well built up by its predecessors, even more efficient by increasing the personnel, improving their training, and perfecting the system of assessment and collection. This system was improved in several ways: (1) Accounting and bookkeeping requirements were made more stringent. Small businessmen, not usually forced to keep books, were required after 1935 to keep an entry book for goods received; after 1936 the wholesale trade was forced to record all goods sold. These measures, in conjunction with the general increase in state supervision, led to a more satisfactory ascertainment of actual turnover, profits, and incomes, particularly of small business units and agriculture. (2) The Book and Plant Inspection Service *(Buch-und Betriebsprue-fungsdienst)* and the general inspection of factories for tax purposes *(Steuernachschau)*, already well developed before 1933, were further improved. The regular and thorough inspection service of the Nazi administration resulted in a considerable increase in tax revenue. (3) A new real estate inventory, introducing uniform standards for the whole Reich, was authorized on October 16, 1934; it was not completed when the war started. Besides being used for taxation purposes, the cadastre formed an important basis for planned land utilization and investment. (4) Entrepreneurs were required to secure a certificate of good standing from the tax authorities as a prerequisite to receiving even small government orders. Lists of dilatory taxpayers as well as the tax penalties were widely publicized.

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[118] *Reichsgesetzblatt,* 1934, I, 925.

Tax Policy Since the Outbreak of War. No fundamental changes were necessary in tax legislation and tax policy when the military economy became a war economy in September, 1939. The distribution of the various types of taxes between Reich, states, and local authorities remained unchanged. War tax policy was at first based on the War Economy Decree of September 4, 1939.[119] It was clearly the purpose of this decree to curtail as much as possible the expenditure of private and public funds whenever it was not essential for prosecuting the war. In order to curtail private consumption, existing taxes were drastically increased; in order to curtail the use of public funds, the states, the local authorities, and other public institutions were compelled to transmit to the Reich an even larger part of their revenue from taxes than before.

The War Economy Decree introduced three different tax measures. (1) A surtax was added to the income tax (Sections 2-5). This surtax affected all incomes over 2,400 reichsmarks, including wage earners, and excepting corporations.[120] The surtax amounted to 50 per cent of the regular income tax, but could not exceed 15 per cent of the taxpayer's income. The regular income tax and war surtax combined could not exceed 65 per cent of the taxpayer's income.[121] Wage and salary earners were exempt from the war surtax if their income did not exceed 234 reichsmarks monthly, or 54 weekly, or 9 daily. This surtax was paid at the source by wage and salary earners. (2) A surtax amounting to about 20 per cent of their retail prices was decreed on alcoholic beverages and tobacco goods (Sections 6-12).[122] And (3) states, local authorities, and various public and semipublic institutions had to pay "war contributions" of a very varied nature to the Federal Treasury.[123] The annual contribution by the states was estimated at 227 million reichsmarks; the annual contribution by the local authorities at 1,260 million reichsmarks.[124]

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[119] *Ibid.*, 1939, I, 1609.

[120] Administrative rules concerning the surtax to the income tax of Sept. 4, 1939 *(Reichsgesetzblatt,* 1939, I, 1613*)*.

No further changes were made in tax legislation until about two years after the outbreak of war. In August, 1941, a dividend tax was introduced. However, since its primary purpose was not to raise revenue, but to prohibit "excess dividends," we have dealt with it in discussing developments in the capital market.[125] At about the same time a war surtax of 25 per cent was decreed on the existing corporation tax,[126] which had not been touched by the surtax on incomes ordered in the original War Economy Decree; the surtaxes on tobacco goods and some alcoholic beverages were increased from the original 20 to 50 per cent of their retail prices, and some stamp duties were repealed.[127] New developments in tax legislation came after about another year, in the spring and summer of 1942.[128] The surtax on the corporation tax was raised from 25 to 35 per cent for corporate incomes above one-half million reichsmarks. Some provisions of the income tax law (for example, concerning earning wives) were liberalized; the tax on landlords' inflation gains was abolished by compounding it into a capital debt of the landlords;[129] the citizen's tax was merged with the regular income tax; and the slaughter tax was rescinded.

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[121] Another change in the income tax law affected the assessment of capital gains. The inclusion of capital gains as taxable income was suspended in 1939, shortly before the outbreak of war *(Reichsgesetzblatt*, 1939, I, 1316*)*. Effective Jan. 1, 1941, capital gains were again to be taxable income under the income tax law *(Bank-Archiv*, 1941, 26*)*.

[122] *Reichsgesetzblatt*, 1939, I, 1615, 1762, 2267); see also *Halbjahresberichte zur Wirtschaftslage*, XIV (1939-40), 133.

[123] These contributions were ordered as follows: (a) by the states: additional 15 per cent of their share in the yield from income, corporation, and turnover taxes; (b) by the local communities: 2.5 per cent of the yield from the tax on agricultural enterprises; 5 per cent of the yield from the tax on real estate; 7.5 per cent of the yield from the business receipts tax; 10 per cent of the yield from the citizens' tax; (c) by other public and semipublic institutions which were entitled to levy taxes, fees, etc.: they were compelled to pay a contribution fixed by the Treasury to the Reich. Included among these organizations were the Organization of Industry, the Reich Food Estate, the Labor Front, the Social Insurance Institutions, etc.

[124] *Kommentar zur Reichsverteidigungsgesetzgebung*, by Posse-Landfried-Syrup-Backe-Alpers, I, Pt. III, pp. 3, 4; in 1940-41 the "war contribution" by the local authorities amounted to 1.25 billion reichsmarks (Bank for International Settlements, *Eleventh Annual Report*, Basle, 1941, p. 112).

[125] See p. 131.

[126] *Economist*, CLXI (1941), 654. The 25 per cent surtax was supposed to produce one billion reichsmarks annually (Bank for International Settlements, *Twelfth Annual Report*, Basle, 1942, p. 119).

[127] *Economist, loc. cit.*

Results of Nazi Tax Policy. Total tax and customs receipts of the Reich, states, and local authorities more than doubled from 1932-33 to 1938-39 (Table 4). The increase for the Reich was much larger than for the states and local authorities, not only because of relatively greater changes in the tax system of the Reich than in that of the states and local authorities, but also because of the redistribution of tax receipts in favor of the Reich. Reich tax and customs receipts amounted to 6.7 billion reichsmarks in 1932-33, 9.7 billion in 1935-36, and 17.7 billion in 1938-39,[130] while state and local tax revenues amounted to 3.6 billion reichsmarks in 1932-33, 3.7 billion in 1935-36, and an estimated 5.0 billion in 1938-39.[131] Information on tax receipts by states and local authorities is not available for later years. The Reich alone increased its revenue from taxes and customs from 17.7 billion reichsmarks in 1938-39 to 23.6 billion in 1939-40,[132] to 27.2 billion in 1940-41, 32.5 billion in 1941-42, and 35 billion in 1942-43.[133] Since no information concerning total income and expen-

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[128] Singer, *op. cit.*, LII (1942), 202 and 397-398. [129] See p. 299.

[130] In addition to these revenues, the Reich received from 1933-34 to 1938-39 over two billion reichsmarks from certain taxes, the proceeds of which were not recorded in the official reports of tax and customs receipts. These taxes were: (a) Tax on Devaluation Gains (Dec. 23, 1936), which took away 75 per cent of the gains accruing to private German debtors from the devaluation of foreign currencies. The total proceeds of this tax were estimated at one billion reichsmarks. (b) Assessment on Jewish Property (Nov. 12, 1938). This assessment was to raise one billion reichsmarks by successive installments. Roughly, 400 million reichsmarks were raised in two installments by April 1, 1939. (c) The Special Assessment on Industrial Property *(Aufbringungsumlage).* Four hundred million reichsmarks received from this tax from 1933-34 to 1936-37 did not pass through the Reich Treasury, but went into the hands of the Bank of German Industrial Debentures to be used for granting credits to agriculture in the Eastern provinces. (d) The Marriage Aid Tax (June 1, 1933), which was levied on wages and assessed income to provide funds to subsidize marriages. Total proceeds from this source 1933-34—1936-37, amounted to 243.2 million reichsmarks *(Statistik des Deutschen Reichs,* 1938, DXXVIII, Pt. II, pp. 11, 41*).*

[131] Reichs-Kredit-Gesellschaft, *op. cit.*, p. 99.

[132] *Wirtschaft und Statistik*, XX (1940), 284 and 494.

[133] *Economist*, CXLIV (1943), 427.

TABLE 4

TOTAL TAX AND CUSTOMS RECEIPTS OF REICH, STATES, AND LOCAL AUTHORITIES AND THE NATIONAL INCOME, GERMANY, 1928-29 AND 1932-33–1938-39*

Fiscal Years (April 1-March 31)	National Income†	Total Tax and Customs Receipts	Increase in Tax and Customs Receipts over 1932-33	Percentage of Total Tax and Customs Receipts to National Income
		(Billions of Reichsmarks)		
1928-29.....	75.4	14.3	—	18.9
1932-33.....	45.2	10.2	—	22.6
1933-34.....	46.5	10.6	.4	22.8
1934-35.....	52.7	11.9	1.7	22.6
1935-36‡....	58.7	13.4	3.2	22.8
1936-37‡....	64.9	15.5	5.3	23.9
1937-38‡....	72.6	18.4	8.2	23.3
1938-39‡....	79.7	22.7	12.5	28.5

*Sources: *Statistisches Jahrbuch für das Deutsche Reich*, Berlin, LIV (1935), 439; *Wirtschaft und Statistik*, XVIII (1939), 705; Reichs-Kredit-Gesellschaft, *Germany's Economic Situation at the Turn of 1938-39*, p. 99.

†The figures for national income are for calendar years 1928 and 1932-38.

‡Including the Saar area.

ditures of Reich, states, and local authorities was published, it is impossible to discover reliably to what extent expenditures were covered by tax revenue. On the basis of certain estimates, it would appear that in 1938-39 and 1939-40 about half of total public expenditures was covered by tax revenue, while in the earlier years of Nazi rule the percentage was even higher.

In spite of the continuous increase in total tax revenue, the total tax burden imposed upon the German people showed a remarkable stability during the prewar Nazi administration. A fair indication of the tax burden which the whole community of a country has to carry is the relationship between the total revenue from taxes and the national income. The share in the national income turned over through taxation to public authorities, which amounted to about 23 per cent during the first five years of Nazi rule, rose swiftly only in the last fiscal year before the war—because of new taxes, higher rates, more efficient tax administration, etc. This means that, because of a sharply rising national income, the government was able to extract even larger payments from the people without increasing the percentage of national income absorbed by taxes. Compared, however, with the last fiscal year before the depression, 1928-29, the percentage of national income which the government obtained through taxation increased con-

TABLE 5

TOTAL RECEIPTS FROM REICH, STATE, AND LOCAL TAXES AND RECEIPTS FROM SOME IMPORTANT INDIVIDUAL TAXES, FISCAL YEARS,§ 1932-33–1938-39*
(Billions of Reichsmarks)

	1932–33	1933–34	1934–35	1935–36	1936–37	1937–38	1938–39
Total Reich Taxes	6,647.0	6,846.2	8,222.8	9,654.1	11,492.4	13,964.3	17,712.1
Property and Trade Taxes	4,022.8	4,062.3	4,969.6	6,175.6	7,839.2	9,822.6	13,061.0
Wage Tax	748.5	730.1	899.4	1,361.7	1,544.2	1,760.2	2,090.8
Tax on Income from Capital	40.9	42.8	46.3	60.8	74.6	79.8	95.1
Income Tax	543.2	520.1	744.8	1,074.9	1,583.5	2,219.2	3,166.3
Corporation Tax	105.8	210.0	319.5	592.7	1,046.0	1,552.8	2,416.6
Property Tax	330.3	307.3	303.4	303.0	359.8	366.3	390.6
Special Tax on Industrial Property	138.7	20.5	9.7	13.4	21.1	132.4	144.5
Inheritance Tax	61.7	73.9	72.5	75.3	77.5	94.5	104.2
Turnover Tax	1,354.4	1,516.2	1,872.5	2,020.0	2,389.2	2,753.6	3,356.7
Land Purchase Tax	18.7	17.1	20.6	24.7	30.6	37.5	103.5
Motor Vehicle Tax	172.1	211.6	145.4	135.3	135.3	136.4	140.8
Passenger Transportation	94.0	89.4	95.2	100.2	106.7	129.5	154.2
Freight Tax	85.1	94.6	111.7	120.0	135.7	162.4	188.7
Flight (Emigration) Tax	0.9	17.6	38.1	45.3	70.0	81.4	342.6
Customs and Consumption Taxes	2,624.2	2,783.8	3,253.2	3,478.5	3,653.2	4,141.7	4,651.1
Customs	1,106.0	1,065.1	1,148.6	1,249.4	1,333.4	1,595.2	1,818.0
Tobacco Tax	762.0	742.9	802.6	812.9	840.5	912.1	1,002.6
Sugar Tax	285.8	279.3	300.0	313.8	328.9	353.7	377.6
Beer Tax	260.8	242.1	267.4	282.9	287.1	315.0	365.2
Spirits Monopoly Income	137.0	149.3	176.3	208.0	235.2	278.5	318.9
Mineral Oil Tax	6.4	14.8	20.1	18.0	29.6	92.7	107.1
Fats Tax	....	196.5	238.8	302.4	298.7	280.6	302.1
Butcher's Meat Tax§§	....	....	202.7	193.0	198.2	208.9	204.1
Total State and Local Taxes	3,521.2	3,734.6	3,610.9	3,611.1	3,964.6	4,567.8	....
Land and Building Tax	1,320.4	1,384.4	1,359.0	1,407.8	1,476.8	1,526.1	....
Business Tax†	544.0	538.4	551.7	701.0	911.9	1,344.8	....
Tax on Landlords' Inflation Gains	925.1	924.7	914.0	693.1	697.8	747.7	....
Citizen Tax‡	250.3	335.8	398.3	422.5	473.6	513.1	....
Local Beer Tax	....	....	155.8	165.3	170.4	190.7	....
Local Beverage Tax	165.2	163.0	29.9	32.7	37.5	44.2	....

*Sources: (a) *Reich Taxes:* 1932-1937, *Wirtschaft und Statistik*, XIV (1934), 319; XVI (1936), 594; XVII (1937), 518; 1937-39, *Reichssteuerblatt*, XXIX (1939), 738; (b) *State and Local Taxes: Statistisches Jahrbuch für das Deutsche Reich*, LII (1933), 425; LIII (1934), 427; LIV (1935), 449; LV (1936), 468; LVI (1937), 490; LVII (1938), 512. §§A Reich Tax since 1934. †Includes chain store and department store taxes, mining and railroad tax. ‡Includes fees for administration costs, welfare duties, and inhabitant tax (*Einwonersteuer*).

siderably. While about a fifth of the 1928-29 national income was paid in taxes to the government, in 1938-39, the last fiscal year before the war, almost three-tenths of the national income was shifted to the Treasury through taxation. The data about the total tax burden, however, do not offer any indication regarding possible changes in the distribution of the burden. Only a very detailed examination of the income of specific groups of the population and of their tax payments at various times, which should include the constantly increasing payments through extensive and diverse "voluntary" and involuntary contributions,[134] would throw light on possible modifications in their respective tax load. Such an analysis, however, is not feasible.

Revenue of Private and Quasipublic Organizations as a Source of Public Funds

Taxation and loans were not the only sources of revenue used by public authorities in Nazi Germany to finance their increasing expenditures.[134a] The Nazi government transferred many, partly old and partly newly created, public tasks to special quasipublic organizations, either to the Nazi party and its affiliates or to various other allegedly independent organizations which were set up for a specific purpose. In some cases, the agencies were not completely new, but old ones redesignated for new purposes. Education, for instance, no longer remained the exclusive function of the public school system, but was shifted in part to the Hitler Youth organization. Public welfare, largely under the jurisdiction of local and district authorities before 1933, was partly transferred by the Nazi government to affiliates of the party, e. g., to the NS Public Welfare and the Winter Help. Public functions were also performed by other affiliates of the Nazi party, such as the SA (Storm Troopers), the SS (Special Storm Troopers), the Labor Front, the Organization of Government Officials (Deutscher Beamtenbund), and the Students Organization (NS-Deutscher Studentenbund); it is likewise true of certain allegedly independent organizations, for instance, the Reich Aerial Defense Association (Reichs-Luftschutz-Bund). In addition to the party and its affiliates, the Nazi government built up, as we have seen in previous chapters, quasipublic organizations with specific functions in the economy: it established, for example, the Reich Food Estate (Reichsnährstand) for control and regulation of agriculture, the Organization of Industry (Organisation der gewerblichen Wirtschaft) for control and regulation of all other industries, and the Supervisory Agencies for control and regulation of foreign, and later also, domestic trade. Finally, the Reich Office for Employment Exchange and Unemployment Insurance must be mentioned as an important source of revenue.

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[134] For a discussion of contributions, see next section.

[134a] After the outbreak of war, different types of contributions imposed upon the invaded territories as well as "occupation costs" became an increasingly important source of revenue to the Reich. The total amount thus received was estimated at 10 billion reichsmarks for the fiscal year 1940-41 (Bank for International Settlements, *Twelfth Annual Report,* Basle, 1942, p. 120).

All these organizations derived most of their income from special contributions, collections, fees, etc., but outside of public budgets. They were important as a source of public revenue since they relieved the government of expenditures which it itself otherwise would have had to carry, and since they often collected funds in excess of their own needs. Such surpluses were then channeled directly into the Reich Treasury. It is necessary, therefore, to examine these sources of revenue in some greater detail in order to obtain as complete a picture as possible of all the sources of income which the Nazi government commanded. No attempt will be made, however, to ascertain the magnitude of these revenues. Such an attempt would be faced with particularly great difficulties. Since public reports concerning these revenues were usually not made, reliable and comprehensive information is lacking in many instances. In cases where data on revenue can be obtained, it is often impossible to find out with any degree of certainty how large a portion of the revenue was diverted directly to the Reich Treasury. Moreover, it is frequently very difficult to ascertain which part of the activities of such organizations actually represented functions ordinarily performed by the government itself and which part of their income was used for genuinely nonpublic purposes and should therefore not be added to the Reich revenue. What makes the problem even more complicated, is the fact that some of the party organizations received subsidies from the Reich, the states, and local governments. We have pieced together many bits of information on the methods and techniques used, but refrained from making conjectural estimates of the amounts actually raised where unequivocal official figures do not exist.

The revenue of the various organizations was derived either from collections *(Spenden)* or from contributions, assessments, and fees. Collections were used for charitable or some other specified purposes. In the early days of the regime, the Nazi government acquired complete control over all collections. The legal groundwork for the new system was laid in a series of laws and decrees.[135] The voluntary character of collections was more or less eliminated as terrorism and other pressures forced all individuals and enterprises to contribute. Contributions or fees usually took the form of membership dues or assessments. Membership fees were paid either to party organizations, to close affiliates, or to other organizations of a semipublic character.

Collections. The Winter Help Fund proved the most lucrative collection for charitable purposes. Prior to the Nazi regime, relief during winter months was provided as a part of general public and private welfare activities. The main burden was then borne by states, local authorities, and private associations. The Nazi government discontinued such services by private and public bodies and created in their stead in 1933 a huge new apparatus, the famous Winterhilfe. The collections for this new organization were not really voluntary. Recalcitrant contributors were subjected to all kinds of pressure. Entrepreneurs, for instance, found it impossible to secure government orders when they did not make the contributions to the Winterhilfe that were expected from them.

Table 6 indicates the relative importance of various contributions to Winterhilfe. Cash collections made up the largest share of the total, and increased in importance after 1933-34 (1933-34, 51 per cent; 1938-39, 77 per cent). The greatest part of cash collections was derived from wages and salaries through deductions at the source and from contributions by enterprises based on turnover or income. Street collections were also large. Collections in kind, which remained fairly stable since 1933, practically accounted for the balance. The increase in total collections was due to the general rise in income, more stringent collection requirements,[136] and, since 1938-39, the inclusion of Austria and the Sudetenland. Information for the first two years of the war indi-

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[135] *Reichsgesetzblatt,* 1934, I, 235, 531, 1086, and 1250; 1935, I, 289.

[136] *Der Deutsche Volkswirt,* XIV (1939), 32.

TABLE 6

INCOME OF WINTERHILFE, FISCAL YEARS,† 1933-34–1938-39*

Type of Collection	1933–34	1934–35	1935–36	1936–37	1937–38	1938–39‡
Collections in Cash:						
Wage and Salary Deductions	82.6	88.8	62.7	69.3	80.6	105.0
Firms and Organizations		43.6	75.2	105.4	103.6	150.2
"One-Pot" Collections	25.1	29.6	32.0	33.7	34.7	50.5
Street Collections		13.3	25.7	43.0	41.5	84.4
Day of Nat'l. Solidarity	24.5	4.0	4.1	5.7	8.1	16.1
Nazi Organizations abroad	....	.9	1.8	2.5	2.9	3.4
Winter Relief Lottery	7.9	7.5	7.6	7.1	7.1	7.7
Freight Subsidy for Coal	8.9	9.6	9.8	11.9	10.0	8.1
Miscellaneous	35.3	7.5	15.9	15.6	8.8	11.0
Cash Total	184.3	204.8	234.8	294.2	297.3	436.4
Collections in Kind	127.0	110.5	92.1	92.8	102.0	113.8
Miscellaneous Receipts	46.9	52.2	37.5	28.1	19.7	16.2
Total	358.2	367.5	364.4	415.1	419.0	566.4
Balance Forward	....	8.1	15.1	7.6	14.5	16.3
Grand Total	358.2	375.6	379.5	422.7	433.5	582.7

*Source: *Wirtschaft und Statistik,* XVII (1937), 698; XIX (1939), 673.
†April 1-March 31.
‡Includes Austria and the Sudetenland.

cates that the Winterhilfe income seems to have remained as high as in the prewar years.[137] Official publications about the use of these funds disclose[138] that the amount spent in the distribution of goods and services decreased with the increase in employment and individual incomes. The released funds went apparently into formerly neglected fields such as mother and child assistance.

Nazi Public Welfare and the Adolf Hitler Collection were the two other most important collections for charity. The Nazi Public Welfare's source of funds consisted mainly of a large collection throughout the Reich and several special ones for clothes, food, vegetables, etc., and monthly dues on the basis of income. The entire personnel of public agencies and most of the employees of private enterprises contributed to them. Contributions by firms to the Adolf Hitler Collection amounted to .2 per cent of their total payroll above 5,000 reichsmarks, with a minimum contribution of 5 reichsmarks for every main office and branch plant. In most cases the firms found it desirable to contribute to these collections in order to secure government orders, or because contributions to the Adolf Hitler Collection exempted firms from all other collections except the Winterhilfe and Nazi Public Welfare. Receipts from these collections were not reported.

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[137] *Ibid.*, XIV (1940), 1740-1745.

[138] *Wirtschaft und Statistik,* XVII (1937), 699; XVIII (1938), 796; and XIX (1939), 674.

Contributions and Fees. Membership fees may be separated into two groups, fees to organizations and bodies not directly connected with the National Socialist party (Reich Food Estate, Organization of Industry, Ministry of Propaganda, and Unemployment Insurance), and fees to the National Socialist party itself and to organizations which were either a part of, or closely affiliated with, the party.

1. *Reich Food Estate.* The income of the Reich Food Estate was made up of membership dues, which were assessed like taxes, and of special administrative fees, for which many different forms were employed according to the purpose in view. Numerous bits of evidence in Nazi literature lead us to assume that the total amount of money raised regularly through the various devices by the Reich Food Estate was very considerable (and may have reached as much as a half billion reichsmarks a year). Many functions of the Reich Food Estate in planning and regulating the entire agricultural system of the country[139] were so essential to the Nazi government that it would have had to finance them through the regular budget if the "private" revenues had not existed.

Membership dues were received both from concerns engaged in agricultural production and from concerns trading in, and possessing, agricultural commodities. These dues (1933-34 to 1938-39 in millions of reichsmark: 56, 68, 68, 68, 69, 70)[140] were based on the value of each farm as of January 1, 1931; the rate was .2 per cent of the value with a minimum payment of three reichsmarks. After May, 1938, the fees were calculated in a complicated manner based upon the real estate tax.[141] The largest part of the Reich Food Estate's revenue was derived from a great variety of special administrative fees, such as levies to cover administrative expenses *(Bewirtschaftungsabgaben)*, compensatory charges *(Ausgleichsabgaben)*, and import-export fees. A few examples illustrate the techniques used:[142] The Market Associations imposed fees for the issuance of purchase and sale certificates prescribed by the Reich Food Estate, as well as special levies to cover their administrative expenses; the cost of administration of the Central Association for Grain was met after November, 1935, through a payment by the mills of one reichsmark per ton of processed grain, which was added to the price of flour. Levies were also imposed on some commodities in order to secure funds for reducing the price of other commodities. Wheat mills, for example, paid after September, 1935, a milling charge of six reichsmarks per ton to the Central Association for Grain; the funds thus raised were used to cheapen the price of rye flour and prevent a rise in the price of rye bread. In addition to the Market Associations, the Supervisory Agencies played, as was mentioned before, an important role in regulating agriculture. They levied fees to cover their administrative expenses. But much larger amounts were received by them through special levies imposed upon imports in order to adjust the prices of cheaper imported commodities to the higher prices prevailing in the domestic market. These levies either replaced or supplemented tariffs.

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[139] For a detailed discussion, see Chapter 4.

[140] *Wirtschaft und Statistik,* XX (1940), 3.

[141] *Reichsgesetzblatt,* 1938, I, 582.

2. *Organization of Industry*. All industrial and commercial enterprises (except agriculture) were made liable for membership fees to the Organization of Industry.[143] Its exact receipts were never published. Sums were raised from individual firms on various bases, such as total payroll, numbers of employees, or turnover. In addition, all firms were forced to pay an entrance fee, which was supposedly extraordinarily high.[144] The special assessment to provide funds for the Export Subsidy of June 28, 1935,[145] also falls within the scope of the Organization of Industry. A great deal of secrecy clothed these subsidies; firms were not even permitted to enter the sums received in their books. Consequently, only scattered estimates are available. The yield for 1935-36 was expected to be 700 million reichsmarks from manufacturing and 300 million reichsmarks from commerce and the

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[142] For further discussion and examples, see pp. 256-257.

[143] *Reichsgesetzblatt*, 1934, I, 1193.

[144] *Der Deutsche Volkswirt*, IX (1935), 1511.

[145] *Reichsgesetzblatt*, 1935, I, 812.

banks, but receipts seem to have been only 900 million reichsmarks.[146] The yield of 1936-37 was expected to be: (1) 600 million reichsmarks from manufacturing; (2) 200 million reichsmarks from wholesale trade (notably import trade); and (3) 200 million reichsmarks from agriculture.[147] Estimates ranged from 800 to 1,000 million reichsmarks for each of the two following years.

Numerous other fees were imposed upon business. One example is the fee in connection with the supervision of the banking system.[148] Another levy which affected all branches of industry was introduced during the war, the levy for co-operative economic help *(Die Umlage für die Gemeinschaftshilfe der Wirtschaft)*.[149] The funds raised by that levy were to be distributed among entrepreneurs whose business had to be closed during the war, but were to be reopened after restoration of peace. All industries, with a few exceptions such as ocean-shipping, were liable for contributions under this law. The levy, based on the business gross receipts, was first imposed for the fiscal year 1940-41. The maximum yield was then estimated at 330 million reichsmarks.[150]

3. *Department of Propaganda.* The Department of Propaganda secured most of its funds from dues paid to the Reich Chamber of Culture, from proceeds of the advertising levy, and from radio fees. The Reich Chamber of Culture was composed of the Reich Film Chamber, Music Chamber, Press Chamber, etc. Membership was compulsory for all those active in the professions concerned. All members were required to pay dues which could be requisitioned as public revenue. The advertising rate of 2 per cent was levied upon gross receipts of advertising firms and of promoters of fairs and exhibitions.[151] The fee charged for a radio was 2 reichsmarks. The number of radio owners in Germany on April 1, 1940, was 12.6 million.[152]

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[146] Howard S. Ellis, "Exchange Control in Germany," *Quarterly Journal of Economics*, LIV (1940), Pt. II, p. 82.

[147] *Commerce Reports*, May 30, 1936, p. 420.

[148] *Reichsgesetzblatt*, 1934, I, 1203, and 1935, I, 203.

[149] *Ibid.*, 1940, I, 395 and 737.

[150] Little use was made of this institution during the first two years of the war. The total amount paid out to entrepreneurs until May, 1941, amounted to only eight million reichsmarks. The number of applications and the amount paid out increased during 1941 *(Die Deutsche Volkswirtschaft*, 1942, p. 139*)*.

[151] *Reichsgesetzblatt*, 1933, I, 625 and 791.

[152] *Wirtschaft und Statistik* XX (1940), 425.

4. *Unemployment Insurance Contributions.* Unemployment insurance contributions were compulsory before and after 1933. During part of the depression the unemployment contributions failed to cover benefit payments in spite of an increase in rates. Gradually, as employment increased and wages and salaries rose, the receipts of the Reich Office for Employment Exchange and Unemployment Insurance considerably exceeded the steadily decreasing benefit payments. The rates remained about the same after 1933, but the insured were deprived of their legal right to insurance benefits. Since benefits were now granted only on the basis of need, and since there were large surpluses, now employed by the Reich for other than the original purposes, the unemployment insurance contributions resembled genuine taxes. Data on the unemployment insurance contributions and benefits may be found in reports of the Reich Office (Table 7).

TABLE 7

CONTRIBUTION RECEIPTS AND BENEFIT PAYMENTS OF THE REICH OFFICE FOR EMPLOYMENT EXCHANGE AND UNEMPLOYMENT INSURANCE, 1933-34–1938-39*
(Millions of Reichsmarks)

Fiscal Years†	Contribution Receipts	Benefit Payments	Surplus Receipts
1933-34	1,007.3	1,224.0	.....
1934-35	1,217.7	1,049.9	167.8
1935-36	1,364.1	899.5	464.6
1936-37	1,538.7	566.5	972.2
1937-38	1,751.0	323.4	1,427.6
1938-39	1,941.2	172.7	1,768.5

*Sources: *Arbeit und Arbeitslosigkeit*, 1934, No. 13, pp. 20-21; 1935, No. 13, pp. 25-26; 1936, No. 12, pp. 24-25; 1937, No. 12, pp. 24-25; *Der Arbeitseinsatz im Deutschen Reich*, 1938, No. 13, pp. 14-15; 1939, No. 13, pp. 15-16.

†April 1-March 31.

The total surplus from 1934-35 to 1938-39 roughly amounted to 4.8 billion reichsmarks. It would seem, however, that about 730 million reichsmarks were spent for Reich Office administrative expenses from 1934-35 through 1938-39. Almost the entire balance seems to have been used for financing work creation in 1934 and 1935; after 1935 there was a growing tendency for the surplus funds to flow in one way or another into the hands of the Reich. For instance, in 1937-38, 1,134 million reichsmarks of the 1,428 million surplus were classified as "general budget expenditures," but a footnote indicates that the 1,134 million reichsmarks were distributed about equally (a) to finance Reich Superhighways; (b) to redeem maturing bills used in financing work creation in 1932-33; and (c) as a direct transfer to the Reich.[153] We are certainly justified in assuming that practically the entire surplus of the period before the outbreak of war (4.8 billion reichsmarks) was used for purposes which would normally appear in public budgets. The administration expenses of the organization are rightly included in this sum, for the Reich Office gradually lost its character as an insurance institution and took over the task of mobilizing German labor.

5. *The Nazi Party and Its Affiliates.* There is only scanty information about the revenue of the National Socialist party. It received funds from membership dues and a number of other sources, such as fees for initiation, collections, and lotteries for national work. The line of demarcation between party and government income and expenditures is nebulous. It was reported "that since the party had assumed tasks which previously fell to the State, the surpluses of the Reich played an important part in the party's income receipts."[154] Mobilization and the outbreak of war brought about a considerable reduction in party revenue, which led to an appeal to members that they continue contributions while in service. The system of party contributions was centralized during the war. All receipts were now placed in the hands of the Reich party cashier, who planned a single budget.[155]

No information exists about the revenue of most of the affiliated party organizations, such as the Storm Troopers (SA), the Special Storm Troopers (SS), the Hitler Youth, and the Nazi Women's Organization. The Reich Air Defense Association, another party affiliate, raised its funds partly through membership fees.[156] In addition to these "voluntary" fees, compulsory contributions for air defense were imposed upon large industrial enterprises by the Air Defense Law of June 26, 1935.[157] The Department of Aviation could determine the size of these contributions. The most important of the organizations which were a part of, or closely affiliated with, the party was the Labor Front. Contributions to the Labor Front were based on gross income of the members. Robert Ley, then Leader of the Labor Front, stated on March 1, 1935, that there were twenty million members in the Labor Front and that its annual income amounted to 300 million reichsmarks.[158] After 1935, loopholes that seem to have existed were eliminated, and the membership increased to 25 million. In February, 1941, Ley stated that the monthly income of the Labor Front had risen to 51 million reichsmarks (from 46 million reichsmarks at the time of the outbreak of war).[159] On an annual basis that would have meant over 600 million reichsmarks. There are indications that a good part of these funds was spent for purposes of the National Socialist party and the government. According to Ley, Labor Front expenditures for 1934 were:[160] 80 million reichsmarks for benefits to invalids, aged, and recipients of special pensions; 12 million for legal aid; 44 million for professional training; 20 million for "Strength through Joy"; 9 million for political indoctrination of the administrative staff *(weltanschauliche Erziehung der Amtswalterschaft)*; 20 million for extraordinary payments, such as holiday subsidies, theater subsidies, subsidies for needy firms, etc. One hundred fifteen million reichsmarks of the alleged total income in 1934 remained unaccounted for. Although the distribution of expenditure has no doubt changed in later years, it is an important indication of how the revenue of the Labor Front was used.

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[153] *Der Arbeitseinsatz im Deutschen Reich,* 1938, No. 13, pp. 14-15.

[154] *Der Deutsche Volkswirt,* XIV (1940), 1713.

[155] *Ibid.*

[156] In 1941 the Reich Air Defense Association had thirteen million members (*The New York Times,* July 7, 1941).

[157] *Reichsgesetzblatt,* 1935, I, 821, and 1937, I, 558.

Summary. The preceding sections have shed some light on the many devices which the Nazi government used in obtaining funds for public purposes outside the customary channels of taxation and borrowing. The reader, no doubt, has gained an impression of the variety of sources used and the ingenuity displayed by the Nazis in this respect. No information exists as to where the burden of these manifold payments fell. Firms as well as the masses of the population contributed, and in some cases entrepreneurs were not permitted to shift the burden to the public.

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[158] *Deutschland-Berichte der Sozialdemokratischen Partei Deutschlands*, Aug. 1936, pp. B. 32-33.

[159] *Bank-Archiv*, 1941, p. 97.

[160] *Deutschland-Berichte der Sozialdemokratischen Partei Deutschlands*, Aug. 1936, pp. B. 34-35.

Much evidence in Nazi literature shows that the total revenue from all the sources mentioned was rather considerable. The net income used for purposes for which public funds would otherwise have been needed has been estimated at 15-20 per cent of the total income from taxes and customs. If it is kept in mind that in the years of war preparations the Nazi government was exceedingly anxious to conceal its total expenditure, to limit public borrowing as much as possible, and to extract money from the people as painlessly and unobstrusively as feasible, the significance of these "contributions" becomes very obvious. While in later years, after the outbreak of war, it was a rather negligible problem whether to raise two or three billion reichsmarks more or less, such an amount was a matter of real concern in the years of half-concealed war preparation. Without the revenue from these unusual sources, the total amount of public borrowing would necessarily have been considerably higher—a development which the government was very eager to avoid.

Chapter 10

The Effect of the Military Economy on Civilian Consumption

THE PROBLEM OF ESTIMATING THE EFFECT OF REARMAMENT UPON CONSUMPTION, 332. THE INCOME FLOW IN THE ECONOMY, 336—The National Income and the Share of All Wage and Salary Earners, 336; The Income of Employed Wage and Salary Earners Subject to Social Insurance, 339; Wages and Income of Individual Wage Earners, 347. THE BALANCE SHEET OF CONSUMERS' GOODS, 350—The Production of Consumers' Goods, 350; The Consumption of Consumers' Goods, 353; Changes in the Satisfaction of Collective Needs, 360. THE LEVEL OF CONSUMPTION BEFORE THE OUTBREAK OF WAR, 363.

The Problem of Estimating the Effect of Rearmament Upon Consumption

The question of the effect of armament expenditure on consumption cannot be answered in a few striking sentences or with a few telling statistics.* In any consumption study certain problems arise which cannot be treated adequately by statistical methods. A primary requisite of effective statistical investigation is a careful, accurate delineation of the categories to be measured. The clarity of these delineations determines to a large extent the usefulness of the study. Very few economic concepts are more difficult to define than "consumption" and "standard of living." The more clearly it is understood that these terms are ambiguous, the easier it will be to realize that *any study such as this can only attempt to sketch the approximate trend of the development, and to indicate in broad outline the magnitudes involved.* The following attempts to define and qualify some of the statistical material used should not be taken as a pretense of accuracy which an investigation of consumption cannot possibly possess.

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* All the statistical material used in this chapter is based upon official statistics published by the German Government. Although it is not impossible that it deliberately distorted statistical material for political and military purposes, we have found no concrete evidence of actual falsifications in the statistics used in this chapter. But it is necessary to be ever alert to the possibility of being misled by disguised propaganda. The fact that the German Government suppressed material which it disliked or wished to keep from the outside world should by no means be considered a guarantee of the accuracy of the material which it actually published.

"Consumption" in its broadest sense can be defined as the sum total of all the economic goods—commodities and services—which an individual utilizes in a given period of time. Even in normal times, and under the most auspicious circumstances, it is not easy to deal with such a concept in a precise manner. Not only is it usually extremely difficult to determine and measure all the services which an individual buys, but it is impossible either to solve or circumvent the problems that arise in connection with durable consumers' goods. Since they are bought at a given time but consumed over an extended period, attempts to measure their significance for annual consumption lead to results which are very questionable. When one examines the consumption of a whole people and compares it from year to year over an extended period, the difficulties accumulate.

Other difficulties grow out of the tendency of consumer habits to vary over any extended period of time. Even when there are comparatively few economic and political changes, consumer habits do not usually remain the same. They change under the impact of new developments, new inventions, and new resources; they change because of changes in price relationships over a period of time; they change because of changes in the amount of money in the hands of different people; they change because of the change in the age distribution of the people; and they change because of changes in the size of families and in the number of people employed in each family. In the face of revolutionary economic and political developments, consumption habits might be expected to change even more rapidly and radically. The problem, therefore, of measuring consumption in Germany for a ten-year period, which includes the dynamic changes from 1933 to 1939, becomes exceedingly difficult. The decline in the quality of commodities during those years, the change in the structure of consumption deliberately sought by the government, the change in inventory policy on the part of entrepreneurs and consumers, the government's accumulation of reserve stocks, all serve to complicate the problem. German consumption statistics for that period, for example, include an unknown quantity of commodities which were not actually consumed, but were stored as reserves.

We shall measure the development of consumption in Germany in two different ways: first, by ascertaining as accurately as possible the volume of purchasing power that was paid out and available for consumption purposes; second, by estimating the quantities of visible commodities which the German people bought in three different years. Both investigations will be carried through for 1929, probably the year with the highest consumption in the after-war period; for 1932, the year of the deepest depression (one year before the Nazi party gained control and initiated the rearmament program); and for 1938, the year before actual warfare started and for which relatively complete figures are available. Developments after the outbreak of war are omitted, not only because the accessible information is hardly sufficient for such a study, but also because of the difficulty of evaluating the importance for German consumption of some of the wartime changes. The effects of occupation of foreign territories, the presence in Germany of millions of prisoners of war, and the absence of millions of Germans from Germany cannot be satisfactorily estimated.

The basis of investigation is somewhat different in the two approaches. But in both instances, since completeness is out of the question, the so-called representative method of statistical research was used. This raises the problem of how representative of the totality the particular sample is.

As far as the second approach is concerned, the statistics employed refer to the aggregate consumption of a great variety of visible goods. Although the statistical material used for our purpose includes a good many commodities, it makes no pretense of including all that goes into consumption. No statistics are available concerning the quantity of services consumed at different times; no adequate information is obtainable as to consumption of apartment space; and only occasional material is located on the purchase of durable consumers' goods. All the material refers to the *entire* population.

This is not true in the case of income statistics, which are used for the first approach. Completeness concerning the number of income earners is impossible. The total income paid out to the whole German population and available for consumption cannot be ascertained. No reliable estimates of the income of entrepreneurs, independent business people, and farmers exist; nor are there any indications of the part of their income which was spent for consumption. We must, therefore, use as an indication of the total income at different times the earnings of that part of the population for which income figures can be established from year to year. The income of the German wage and salary earners, the vast majority of the German people, is used for this purpose, on the assumption that by and large the change in consumption of that part of the population is representative of the development of consumption of the entire nation during the period under review. Since the share of the wage and salary earning part of the population in the national income declined in this period, as we shall see, it is possible that this approach underestimates the level of consumption of the rest of the population in 1938, compared with 1929. Even if the patterns of consumption of entrepreneurs, farmers, etc., changed somewhat differently from the changes among the other parts of the population, the differences could not possibly have been so great that aggregate consumption of the whole population would be seriously affected. This is particularly true since the part of the population covered by the figures for wage and salary earners constituted about 75 per cent of all income earners in the country.

The difficulties so far enumerated by no means exhaust the problems with which such an investigation is confronted. A few others should be mentioned. There is the problem of changing prices. Average and aggregate income figures are not easily comparable over a period of years, because completely accurate adjustment for price movements is not possible. In addition, the significance of income figures is impaired by various changes in the compulsory deductions from incomes. Certain adjustments can be made for these deductions, but in view of the inadequacy of German statistics on this point, the figures which we use, however carefully they be selected, are merely estimates.

We have used aggregate and average figures wherever possible, fully aware of their limitations as measures of complete developments. The aggregate figures cannot be adjusted for the many changes occurring in the population; the average figures represent an artificial person, and the extent of the artificiality cannot be determined. This is particularly true because of changes in the number of breadwinners in many families—a highly significant factor in determining the consumption standards of individuals, for which allowance should be made, in the two different approaches used by us, if at all possible.

We have called attention to all these difficulties and insoluble problems in order to make the limitations of the study abundantly clear. But after careful examination we feel that, in spite of all these difficulties, the material which we present can be used as a general over-all indication of the changes in consumption of the German people during the prewar period of war preparations. It should be made clear that what we have presented is not data on the *standard of living* of the population in Germany, even though the income of the people and their consumption constitute an important part of what is usually called "standard of living." No precise conclusions have been drawn about the standard of living as such, because so many satisfactions and values creating insurmountable problems of measurement enter into the standard of living of a people. One can never measure, even roughly, satisfactions which may be derived from national prestige, security of employment, protection during old age, political stability, educational possibilities, literature, music, and art.

The Income Flow in Economy

The National Income and the Share of All Wage and Salary Earners. Statistics on national income can only be used in a general way as indications of the size of the total national product, its growth, and its distribution. Figures on national income cannot possibly be accurate enough to serve as a basis for our purposes. In addition to the many inadequacies so well known to careful students of national income statistics, there is the specific difficulty that it is not possible to adjust the total national income paid out in Germany in such a way as to gauge reliably that part of it which went into consumption. For there is no way of discovering with any reasonable degree of accuracy the amount of savings, the amount which went to the various governments, or the amount of government expenditure, outside of salaries and wages paid by the government, which went back into consumption.

Nominal national income in 1938 was 76 per cent larger than in 1932 and about 5 per cent higher than in 1929. Per capita national income in 1938, however, was still slightly lower than in 1929 (see Table 1). But because of great changes in commodity prices during these years, figures of nominal national income do not mean a great deal. Official calculations of *real* national income show that, after adjustments are made for changes in the cost of living, the total real national income and even the per capita real income of 1938 were not only much larger than in 32 ~~1942~~ but also larger than in 1929. The increase in real per capita national income from 1929 to 1938 amounted to about 20 per cent.

TABLE 1

GERMAN NATIONAL INCOME, 1929-1938*

Year	Nominal National Income		Real National Income (corrected to 1929 prices)†	
	Total (million reichsmarks)	Per Capita (reichsmarks)	Total (million reichsmarks)	Per Capita (reichsmarks)
1929	75,949	1,187	75,949	1,187
1932	45,175	696	57,917	892
1933	46,514	713	60.408	927
1934	52.710	804	66,722	1,018
1935	58,662	877	73,328	1,096
1936	64,884	963	80,104	1,189
1937	72,590	1,070	89,615	1,321
1938	79,722	1,166	97,222	1,422

*Source: *Wirtschaft und Statistik*, XIX (1939), 705. Since 1935, including the Saar, but without Austria and the Sudeten area.

†Adjusted for price changes by use of the official cost of living index. See pp. 343-344.

Although the real per capita national income figures are better indices of the growth of total production in Germany than are the over-all national income figures, they are no more adequate for measuring consumption. Even if the official cost-of-living index, which the German Statistical Office has used to correct nominal national income for price changes, were completely adequate, which German official sources admit is not the case, figures on per capita real income could not be used as indices of changes in average individual consumption. They include large amounts not available for consumption, namely, investments, armaments, munitions, fortifications, etc. The part of the national income so used was much larger in 1938 than that used for similar purposes in 1929 and 1932. The per capita figures are therefore completely misleading as far as actual per capita consumption was concerned; they merely indicate the extensive growth of German national production in the years of rearmament.

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While total national income was increasing a great deal, its distribution was changing considerably (see Table 2). The largest group for which annual income figures are available is wage and salary earners. That group comprises *all* employed wage and salary earners, including civil servants and high-salaried executives. The classification of national income by types of payment also provides figures on pensions and benefits paid out by the various social insurance institutions. The total of incomes received by these two groups represents the income of the *whole* wage and salary earning part of the population, including many of those who belonged to it in previous years (pensioners and the unemployed).

The total nominal amount of wages, salaries, pensions, and

TABLE 2

GERMAN NATIONAL INCOME BY TYPES OF PAYMENT

1929, 1932, AND 1938*

	1929	1932	1938†	1929	1932	1938†
	(Millions of Reichsmarks)			(Percentages of Total)		
Total National Income	75,949	45,175	79,722	100.0	100.0	100.0
1. Profits of Agriculture and Forestry	5,487	3,695	5,800	7.2	8.2	7.3
2. Profits of Industry and Trade	11,768	6,000	14,800	15.5	13.3	18.6
3. Wages and Salaries	43,045	25,711	42,717	56.7	56.9	53.6
4. Interest	3,264	2,298	2,950	4.3	5.1	3.7
5. Rent	871	760	1,120	1.1	1.7	1.4
6. Pensions and Social Insurance Benefits	9,188	9,358	7,614	12.1	20.7	9.5
7. Various Incomes not Included in Items 1-6	9,382	4,852	10,100	12.4	10.7	12.7
8. Adjustments for Duplications	−7,056	−7,499	−5,379	− 9.3	−16.6	− 6.8

*Sources: *Statistisches Jahrbuch für das Deutsche Reich*, LV (1936), 502; *Wirtschaft und Statistik*, XIX (1939), 706.

†Including the Saar, but without Austria and the Sudeten area.

social insurance benefits paid out in 1938 was about 4 per cent smaller than in 1929 but about 43 per cent above 1932. Using for the adjustment of the nominal figures the official cost-of-index, which underrates the actual price movement, total real income from wages, salaries, pensions, etc., increased by 36.5 per cent from 1932 to 1938 and by 17.5 per cent from 1929 to 1938. If these figures are compared with the increase in *total* real national income in the period, which amounted to about 68 per cent from 1932 to 1938 and to about 28 per cent from 1929 to 1938, it becomes obvious that an important shift in the distribution of national income occurred in that period.

The share in the national income of all wage and salary earners, including those receiving pensions and insurance benefits, declined from 68.8 per cent in 1929 to only 63.1 per cent in 1938 (77.6 per cent in the abnormal year 1932). German wage and salary earners, therefore, did not benefit proportionately from the increase in national income from 1932 to 1938, and as a group they were relatively worse off in 1938 than in 1929. In other words, far more than a proportionate share of the large increase in Germany's national product after 1932 was devoted to rearmament and new capital equipment. The shift in the distribution of national income was even more pronounced than these figures suggest. All available information indicates that the wage and salary earning groups grew numerically more than the other parts of the population; in other words, farmers and entrepreneurs became workers and salaried employees. It is clear, therefore, that an increasing number of people obtained a declining share of the national income. Since precise information concerning these numerical changes is not available, the necessary statistical adjustments cannot be made.

The Income of Employed Wage and Salary Earners Subject to Social Insurance. Because it is impossible to make the adjustments that would be necessary, the income of *all* wage and salary earners cannot be used to measure changes in consumption. The alternative, then, is to use as a basis for comparison of changes in consumer income over a period of years a group which, though less inclusive, can be more accurately delimited. Such a group is that of all employed wage and salary earners subject to social insurance,[1] excluding those receiving pensions and social insurance benefits.

The total real income paid out in 193 to employed wage and salary earners subject to social insurance was about 91 per cent larger than in 1932 and about 33 per cent larger than in 1929 (income paid out in nominal values in 1938 was about 97 per cent larger than in 1932 and 8 per cent larger than in 1929). (See Table 3.) To gauge the significance of these figures for the development of consumption in Germany, they must be adjusted as follows:

TABLE 3

EMPLOYMENT AND TOTAL INCOME OF EMPLOYED WAGE AND SALARY EARNERS SUBJECT TO SOCIAL INSURANCE, 1929-1938*

	Annual Average Gainfully Employed			Total Nominal Income		
	Wage Earners	Salaried Employees (Millions)	Total	Wage Earners	Salaried Employees (Millions of Reichsmarks)	Total
1929	14.76	3.16	17.92	23,339	7,649	30,988
1932	9.99	2.69	12.68	11,320	5,766	17,086
1933	10.89	2.79	13.68	12,051	5,722	17,773
1934	12.57	2.97	15.54	14,662	6,271	20,933
1935	13.52	3.20	16.72	16,755	7,085	23,840
1936	14.35	3.46	17.81	18,752	8,064	26,816
1937	15.42	3.76	19.18	21,350	8,983	30,333
1938	16.39	3.97	20.36	23,754	9,864	33,618
				Total Real Income (Corrected to 1929 Prices)†		
1929	....	....	....	23,339	7,649	30,988
1932	....	....	....	14,513	7,392	21,905
1938	....	....	....	28,968	12,029	40,997

*Source: *Wirtschaft und Statistik*, XIX (1939), 294; based on the statistics relating to insurance for old age for workers and for salaried employees. The years 1935 to 1938 include the Saar, but not Austria and the Sudeten area.

†Adjusted for price changes by use of the official cost-of-living index, 1929 = 100.

(1) The number of wage and salary earners whose incomes were covered by these figures was 13.6 per cent larger in 1938 than in 1929. Wage earners increased by only 11 per cent; salary earners, by 25.6 per cent. This increase resulted from the growth in population, the decline in unemployment, the addi-

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[1] This group does not include civil servants or salary earners with a monthly income over 600 reichsmarks (the figures for 1929 and 1932 include those who earned up to 700 reichsmarks); see pp. 342-343.

tion to the working force of people formerly unoccupied and not seeking work, and a shift from the group of independent entrepreneurs, farmers, and professionals to the ranks of wage and salary earners. To make aggregate income figures more comparable, they must, therefore, be adjusted for the increase in numbers. This adjustment for changes in *numbers* can be made. Under certain circumstances, a further adjustment should be made for changes in the income *composition* of the group. This is a rather complicated problem. Had the income composition changed without a simultaneous change in the numerical size of the group, no adjustment for the change in composition would be necessary for the purposes of this study. Under such circumstances, any increase in the aggregate income of the group, regardless of whether the increase was distributed equally among the members of the group, or whether it was due to the fact that a greater percentage of the group had become highly paid wage and salary earners, would be indicative of an increase in the aggregate consumption of the group. From our point of view, it could be taken as a rough measure of the increase in consumption in the society at large. On the other hand, a change in the income composition *accompanied* by a change in numbers would necessitate an adjustment for the change in composition, but it presents an insolvable problem. In such cases, it is impossible to determine whether the change in composition (e.g., a relative increase in the number of highly paid income earners) is due to the fact that highly paid individuals, formerly not classified as wage and salary earners, are now classified as members of the wage and salary group, or whether it is due largely to a shift to higher income levels by wage and salary earners who formerly belonged to the group. In this latter case, the increase in the aggregate income of the group could be taken as roughly indicative of an increase in the aggregate consumption of the whole people; in the former, the increase in the aggregate income of the group, since it grows out of a transfer of income from one part of the society to another, cannot be used as a measure of the increase in consumption of the society as a whole.

In the case of wage earners, no such adjustment for changes in composition is necessary. A grouping of all employed and insured wage earners reveals that the percentage of wage earners belonging to various income classes[2] hardly changed during the period (see Table 4). In 1929, 54.7 per cent of all wage earners belonged to the class whose weekly earnings were 24 reichsmarks or over; in 1938, 54.6 per cent belonged to this same group. Moreover, the very highest income group, earning over 36 reichsmarks weekly, has declined somewhat.

The situation appears to be somewhat different with regard to salaried employees. It is sometimes contended that the income figures of that group cannot be used as indications of changes in consumption. It is said that the disappearance of small

TABLE 4

NUMBER OF GAINFULLY EMPLOYED WAGE AND SALARY EARNERS CLASSIFIED BY INCOME GROUPS, 1929, 1932, AND 1938*

Weekly Wages (reichsmarks)	(a) Wage Earners (in per cent of Total Number)		
	1929	1932	1938†
Below 6	3.5	3.9	4.0
6-12	12.3	18.3	18.0
12-14	16.5	22.7	12.1
18-24	13.0	16.3	11.3
24-30	8.8	10.7	10.3
30-36	8.1	9.0	10.9
Over 36	37.8	19.1	33.4
	100.0	100.0	100.0
Monthly Earnings (reichsmarks)	**(b) Salaried Employees (in per cent of Total Number)**		
	1929	1932	1938†
Below 50	13.7	13.6	11.9
50-100	14.5	21.1	14.6
100-200	30.2	31.9	29.5
200-300	18.8	17.0	20.4
300-400	11.4	8.6	10.6
400-500	6.3	4.2	5.6
500-600	2.5	1.8	4.1
Over 600	2.6	1.8	3.3
	100.0	100.0	100.0

*Sources: *Wirtschaft und Statistik*, XIX (1939), 297; *Vierteljahrshefte zur Wirtschaftsforschung*, XIV (1939-40), 16.

†Including the Saar, but not Austria and the Sudeten area.

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[2] The income classes into which the German Statistical Office classifies the wage and salary earners are not adjusted for changes in the purchasing power of the national currency. Since sufficient data are not available to allow us to make this adjustment, we have been compelled to use the figures as given.

enterprises has changed the composition of the salaried group by including in it many highly paid executives who were formerly classified as members of the entrepreneurial group. This change, it is assumed, shows up in a higher average income for members of the salaried group in 1938, even though the consumption of those who were members of the group in 1929 failed to increase proportionately.

The available information does not support this contention. The statistics on salaried income used in this chapter are drawn from data accumulated in connection with old-age insurance of salaried employees. They show the shift in income distribution to be not considerable: 7.4 per cent of all insured employees earned over 500 reichsmarks monthly in 1938, as against only 5.1 per cent in 1929, an increase of 2.3 per cent in the total group. The number of employees earning from 200 to 300 reichsmarks monthly increased from 18.8 to 20.4 per cent. At the same time the number of employees belonging to the income groups from 300 to 500 reichsmarks monthly declined from 17.7 to 16.2 per cent of all insured salary earners. If there really was an influx of highly paid employees into the group of insured salary earners, their number must have been rather small. Prior to January 1, 1934, all salaried employees with a monthly income up to 700 reichsmarks were required to be insured against old age. After that date the upper limit was lowered to 600 reichsmarks a month. It must be assumed that many of the former entrepreneurs, who, in 1938, were salaried employees, earned enough to be exempted from payment of old age insurance premiums. They are, therefore, not included in the group of salaried employees whose income is used in this study as a measure of levels of consumption.[3]

(2) The official cost-of-living index,[4] on the basis of which the figures for nominal income have been adjusted, is not entirely adequate. This has been freely admitted in Nazi publications.[5] Because it does not allow for the deterioration in the quality of

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[3] The number of persons earning more than 600 reichsmarks monthly who are voluntarily insured against old age and whose incomes are therefore included in the employee income is quite small; it increased from 2.6 per cent of all insured in 1929 to 3.3 per cent in 1938.

[4] *International Labor Review,* XLI (1940), 99. The index with 1929=100 moved as follows: 1930:96; 1931:88; 1932:78; 1933:77; 1934:79; 1935:80; 1936:81; 1937:81; 1938:82. This index is based on the German official index, but converts that index to a 1929 base.

[5] *Vierteljahrshefte zur Wirtschaftsforschung,* XIV (1939-40), 14-15.

certain commodities, and does not adequately measure rent, the index underrates the increase in the cost of living since 1933. In spite of its weaknesses, the index has been used in the tables of this study as published by the Nazi authorities, since there is no other way of adjusting the various figures for price movements. In the following discussion and interpretation, however, we have raised the 1938 official cost-of-living index figures by 10 per cent, in order to allow for the possible underestimation of price changes by the official index. This allowance is probably more than sufficient.[6]

(3) The amount of money which was deducted from individual incomes for direct taxes, social insurance, fees for organizations, "voluntary" contributions of all kinds, etc., was higher in 1938 than it was in 1929 and in 1932. Official German authorities have admitted this. Adjustments must therefore be made for the fact that the income earner was not able to spend for consumption as much as would appear from his income.

Taxes on wages and salaries of all employed wage and salary earners increased from 1.4 billion reichsmarks in 1929 to 2.1 billion reichsmarks in 1938, and from one billion reichsmarks in 1932 to 2.1 billion reichsmarks in 1938. Social insurance contributions by wage and salary earners (without counting the contributions paid by employers) rose 0.3 billion reichsmarks from 1929 to 1938, and 1.2 billion reichsmarks from 1932 to 1938[7] (see Table 5).

No reliable information exists concerning the additional burden imposed upon wage and salary earners by regularly recurring contributions to the Labor Front and Winterhilfe and by fees for other organizations of the Nazi party, in which membership and contributions were virtually compulsory. It has been said that the dues for the Labor Front are somewhat smaller than those for the pre-Hitler labor unions, but they are compulsory for all "workers"—employers and employees alike, whereas only about seven million persons belonged to the unions in 1932 and about seven and one-half million in 1929. All in all, it may be conservatively estimated that, allowing for all the various contributions other than taxes and social insurance premiums, the total money income of all insured wage and salary earners was at least 0.5 billion reichsmarks lower in 1938 than in 1932 or 1929[8] (see Table 5).

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[6] The Reich Statistical Office made a detailed and elaborate study of the problem (*Vierteljahrshefte zur Statistik des Deutschen Reichs*, Berlin, 1937, pp. 149 ff.). They came to the conclusion that, up to the end of 1936, the official cost-of-living index registers fairly well the changes in the cost of living. The Institute for Business Cycle Research, in a study published in July, 1939 (see p. 343, n. 5), states that the index underestimates the actual price movement; the Institute, however, is not specific about the extent of the deviation. In August, 1938, *Die Wirtschaftskurve*, XVII (1938), 301 ff., published a paper which claimed that the increase in cost of living from 1933 to 1937 amounted to 5-15 per cent, instead of 6 per cent as recorded by the official index. To determine what allowance to make for the fact that the official index underestimates the rise in prices, we assumed that the actual increase in the cost of living from 1933 to 1937 amounted to 15 per cent, the maximum rise suggested by *Die Wirtschaftskurve*. This assumption gave a figure for 1937 which was approximately 10 per cent above the official cost-of-living index for that year.

[7] These amounts of changes in taxes and social insurance premiums are careful estimates based upon German statistics on taxation and social insurance institutions. They are confirmed by estimates of those changes published by the Reich Statistical Office; see *Wirtschaft und Statistik*, XVIII (1938), 160.

(4) Since the figures for aggregate income of a part of the population are being used as an index of actual aggregate consumption, savings or nonsavings must be deducted from, or added to, the actual income. This is true even though savings as such

TABLE 5

NOMINAL AND REAL INCOME OF EMPLOYED INSURED WAGE AND SALARY EARNERS ADJUSTED FOR CHANGES IN TAXATION, SOCIAL INSURANCE, CONTRIBUTIONS, AND SAVINGS, 1929, 1932, AND 1938*
(Billions of Reichsmarks)

	1929		1932		1938‡	
Wages and Salaries		31.0		17.1		33.6
Deductions: Total		5.4		2.1		6.8
Tax on Wages and Salaries	1.4		1.0		2.1	
Social Insurance	2.6		1.7		2.9	
Increase in contributions, etc., 1938 over 1932 and 1929					0.5	
Savings†	1.4		−0.6		1.3	
Net Nominal Wage and Salary Income Available for Consumption		25.6		15.0		26.8
Net Real Wage and Salary Income Available for Consumption§		25.6		19.2		32.7

*Sources: See above, Table 3; in addition: *Statistisches Jahrbuch für das Deutsche Reich*, XLVIII (1929), 423; L (1931), 397; LII (1933), 349 and 405; LV (1936), 376 and 502; *Wirtschaft und Statistik*, XIX (1939), 190, 362, 576, and 706; *Halbjahresberichte zur Wirtschaftslage*, XIII (1938-39), 24.

†Balance of deposits over withdrawals in 1929 and 1938; balance of withdrawals over deposits in 1932.

‡Including the Saar, but without Austria and Sudeten area.

§Adjusted for price changes by use of the official cost-of-living index. Corrected to 1929 prices.

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[8] Data on the family expenditures for Labor Front and other contributions have been published for 1937 in the Study on Family Budgets for that year (see p. 358). Comparable data are, however, not available in a similar study for the predepression period, 1927-1928.

may be a very significant symptom of the standard of living of a people, if they are made voluntarily.

Savings in savings banks increased considerably from 1932 to 1938, almost reaching the 1929 level.[9] Greater stability and greater security in employment may have enabled people to save more. Moreover, in many families the number of gainfully employed persons had increased and had set purchasing power free for savings. To some extent new savings may have been involuntary, since at times depositors may have been unable to buy all the commodities they would have wanted. Propaganda techniques for encouraging savings may also have had a considerable effect.

After adjusting the basic figures set forth above in Table 3 (p. 340) for changes in direct taxes, social insurance, contributions, and savings, the real income of employed insured wage and salary earners increased by about 70 per cent from 1932 to 1938 and by about 28 per cent from 1929 to 1938. After making further corrections to allow for the underestimation of price increases by the official index, and for the increase in the number of persons employed, it may be assumed that in 1938 the real purchasing power of the aggregate income paid out for consumption, and in all probability spent for consumption, by the insured employed wage and salary earning part of the population was about equal to the real income earned and spent by the same employed and insured group in 1932 and 1929. From the point of view of our approach—using the income of all employed and insured wage and salary earners as representative of the consumption of the entire community—income groups of 1929 are much more useful as a standard of comparison than those of 1932, because unemployment was much heavier in 1932 than in 1929, while virtually every employable was employed in 1938. The income figures for

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[9] The balance of deposits over withdrawals in German Savings Banks was as follows: (in millions of reichsmarks) 1929, 1,418; 1933, 359; 1934, 317; 1935, 504; 1936, 309; 1937, 924; 1938, 1,312 (*Statistisches Jahrbuch für das Deutsche Reich*, LII, 1933, 349; LV, 1936, 376; and LVII, 1938, 408; *Wirtschaft und Statistik*, XIX, 1939, 190); in 1932 withdrawals exceeded deposits by 631 million reichsmarks (*Statistisches Jahrbuch für das Deutsche Reich*, LIII, 1934, V, 349). These figures refer to the total amount of deposits and withdrawals, not to those of insured wage and salary earners alone. No adjustment is possible. But since the total amount of all savings accounts has been used for all the three periods under review, and since insured wage and salary earners constituted a large part of all savings bank depositors, the error involved is unlikely to be very significant.

1929 and 1938 therefore represent the income of a much larger part of the population than those for 1932.

Wages and Income of Individual Wage Earners. The analysis of the total income of all employed wage and salary earners at different periods should be supplemented by examining the change in income of individual wage and salary earners in specific industries. The available statistical material, however, does not lend itself to such a test. Nazi authorities ceased to publish earnings of typical wage and salary earners in individual industries; only "union" wage rates[10] were published. Since they were kept stable during the entire period of rearmament, they are, of course, of no value in determining actual earnings, which changed because of change in hours of work, because of overtime, because of reclassification of workers, etc.

The only available material on earnings is average figures for all industries and all types of wage earners, weighted according to the number of wage earners and the number of hours worked in each industry. Actual developments varied, of course,

TABLE 6

INDICES OF "UNION" WAGE RATES§ AND ACTUAL HOURLY AND WEEKLY EARNINGS IN GERMANY, NOMINAL AND REAL VALUES, 1929-1938*
(1936=100)

Year	Nominal Rates and Earnings			Real Rates and Earnings† (corrected to 1929 prices)		
	"Union" Wage Rates§	Hourly Earnings	Weekly Earnings	"Union" Wage Rates§	Hourly Earnings	Weekly Earnings
1929.....	126.3	129.5	128.2	102.3	104.7	103.6
1932.....	103.2	97.6	85.8	107.2	100.7	88.5
1933.....	100.1	94.6	87.7	105.3	99.8	92.5
1934.....	100.0	97.0	94.1	102.6	.	.
1935.....	100.0	98.4	96.4	101.2	.	.
1936.....	100.0	100.0	100.0	100.0	100.0	100.0
1937.....	100.1	102.1	103.5	100.1	101.6	103.0
1938.....	100.5	105.6	108.5	99.3	104.7	107.5

§For the concept of "union" wage rates, see n. 10, below.

*Sources: *Wirtschaft und Statistik*, XVIII (1938), 159, and XIX (1939), 520. Since 1935, including the Saar, but without Austria and Sudeten area. These indices are based on wages for skilled and unskilled workers in all industries, including transportation; they were weighted according to the number of workers and the number of hours worked in each industry.

†Adjusted for price changes by use of the official cost-of-living index.

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[10] We call "union" wage rates (a) until 1933 the wage rates agreed upon between unions and employers associations through collective bargaining, (b) after 1933 the wage rates fixed by the Trustees of Labor according to the Law of Jan. 20, 1934 (for further details, see Chapter 7).

from industry to industry and according to the type of wage earners. Moreover, there is no record of how many weeks the wage earners worked every year, although it can be assumed that the number of weeks worked was greater in most industries in 1938 than in 1929. From this point of view, the comparison, if anything, understates earnings in 1938.

Nominal "union" wage rates did not change a great deal between 1932 and 1938, but nominal hourly earnings per wage earner increased by about 8 per cent (see Table 6). The nominal weekly income per wage earner, which had declined considerably during the depression, increased much more—by about 27 per cent—from 1932 to 1938. The difference in the development of nominal "union" wage rates, hourly earnings, and weekly incomes from 1932 to 1938 may have been caused by a number of factors. In certain industries the employer paid higher than "union" wage rates.[11] At the same time, actual hourly and weekly earnings may have been bolstered by the fact that hours of work were increased; overtime work at higher rates became frequent; changes from lower paid into higher paid wage groups may have occurred frequently; piece work may have been widely adopted.

The situation is quite different when 1938 is compared with 1929. By the end of 1938 the relationship between nominal "union" wage rates and nominal hourly and weekly earnings which had existed in 1929 was virtually restored. Nominal "union" wage rates were about 20 per cent lower in 1938 than in 1929, nominal hourly earnings about 18 per cent, and nominal weekly earnings about 15 per cent lower.

The Nazi government did not keep "union" wage rates in line with the slowly rising cost of living. If the official cost-of-living index is used without an allowance for its inadequacy, it will be found that real "union" wage rates increased slightly from 1929 to 1932, but declined from 1932 to 1938 by about 7 per cent (see Table 6). But since overtime became quite frequent and workers were reclassified during that period, particularly toward the end of it, the purchasing power of hourly earnings of the average wage earner rose somewhat from 1932 to 1938, in spite of the decline in real "union" wage rates. Because of the increase in hours of work, the average real weekly earnings rose even more during that period (by about 20 per cent). This means that the average employed wage earner had practically succeeded in obtaining the real weekly income that he had enjoyed in 1929 before the depression. Nazi statistics show even a slight increase in real weekly earnings over 1929. This improvement, however, did not take place, since prices had risen more than is indicated by the index, and since no adjustment is made in those calculations for direct taxes, social insurance, contributions, and savings.[12]

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[11] C. W. Guillebaud, *The Economic Recovery of Germany, 1933-1938* (London, 1939), p. 188.

TABLE 7

HOURS OF WORK PER WORKING DAY IN GERMAN INDUSTRY, 1929-1938*

Year	Hours per Day			Index: 1929=100		
	Capital Goods	Consumer Goods	Total Industry	Capital Goods	Consumer Goods	Total Industry
1929	7.72	7.61	7.67	100.0	100.0	100.0
1932	6.86	6.97	6.91	88.9	91.6	90.1
1933	7.16	7.15	7.16	92.7	94.0	93.4
1934	7.53	7.30	7.43	97.5	95.9	96.9
1935	7.64	7.10	7.41	99.0	93.3	96.6
1936	7.77	7.37	7.59	100.6	96.8	99.0
1937	7.87	7.42	7.68	101.9	97.5	100.1
1938	7.96	7.49	7.75	103.1	98.4	101.0

*Source: *Wochenbericht des Instituts für Konjunkturforschung*, XII (1939), 26.

No definite information is available as to whether the German wage earners were able to restore their predepression weekly earnings without significant increase in the hours they worked. Statistics on the number of hours per week worked by German wage earners have not been published. The only available series is one on hours per working day. This is difficult to use, because of the ambiguity in the statistical concept "working day," especially with reference to the hours worked on Saturdays. The average length of the "working day" rose in all industries from 1932 to 1938 by about 12 per cent, from 6.91 to 7.75 hours, but very little from 1929 to 1938. Hours of work in the consumers' goods industries did not reach the 1929 level, while the "working day" in capital goods industries increased from 1929 to 1938 from 7.72 to 7.96 hours. The development over the period was somewhat uneven from industry to industry.[13] Official statistics indicate that in some industries rather long hours were worked in 1938; for example, the workers in the building industry worked 8.92 hours a day; in the iron, steel, and machine industry, 8.39 hours; in the metal goods industry, 8.37 hours a day.

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[12] See pp. 344-345.

The Balance Sheet of Consumers' Goods

The Production of Consumers' Goods. An analysis of consumers' income in Germany during the period of her military preparations leads us to certain estimates of the change in consumption in those years. We shall now attempt to supplement the results with additional evidence by examining the changes that occurred in the sphere of commodities and goods. As was previously intimated,[14] the statistical material on physical consumption is even more scanty than the information on income. We are limited to using, as samples, figures for certain consumers' goods only—by no means all the commodities and services that make up civilian consumption—and even these partial statistics must be qualified and adjusted in various ways. The results which we obtain are therefore only rough measures of the development of production. They serve, however, to check the findings based on the income material.

There are two different sets of figures which can be used for our purpose: the official indices of production, and consumption figures for individual commodities. The German indices of production, like most such indices, are based on the assumption that changes in production in some specific, particularly important key industries are indicative of changes in production in all industries. Even in so-called "normal" times, when the structure of the economy changes slowly, such indices provide, at best, only an indication of the probable development. In times of swift structural change their usefulness is much more limited, unless a special attempt is made to adjust the indices for those changes. The German Index of Production was changed in 1935, to broaden its base;[15] but so far as is known, the index was not adjusted in the later years for the structural changes that took place in the economy during the armament period. The value of the index as an instrument for measuring changes in production is thereby reduced. Some structural changes are known, but it is impossible to adjust the index for them. In spite of these shortcomings, the index is used here, within the limits described, as a rough indication of changes in production.

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[13] *Statistisches Jahrbuch für das Deutsche Reich,* LVII (1938), 366-367.

[14] See p. 334.

[15] *Wochenbericht des Instituts für Konjunkturfoschung,* VIII (1935), 97 ff.

At the time of its latest change the index was supposed to represent about 66 per cent of the entire industrial production, which includes the processing of agricultural products but not agricultural production as such. The index is weighted according to the amount of horse power and the number of employees in each industry—certainly a doubtful method of weighting, particularly where the index of consumers' goods production is to be used as a measurement of consumption. The index of consumers' goods industries represents production in textiles, leather shoes, household goods, china, glass, pianos, radios, children's toys, meat products, fish products, dairy products, sugar, liquor, beer, and tobacco.

Earlier in this chapter we pointed out that the government pushed the production of capital goods and armaments as much as possible, and kept production of industrial commodities for immediate consumption within much narrower limits. The total product of all manufacturing industries included in the index more than doubled from 1932 to 1938. The change is somewhat larger if food industries are omitted. Production in the capital goods industries alone increased by about 200 per cent, while in the consumers' goods industries the rise was much smaller, about 38 per cent (see Table 8). The increase in the production of heavy goods, however, was not as formidable as might appear from these figures; for, as is usual during depressions, production in these industries had fallen very low by 1932.

More significant is the development of industrial production from the predepression levels through 1938. In 1929 unemployment and unused capacity were much smaller than in 1932, and in 1938 the German economy operated approximately at capacity. While production in all industries rose by about a quarter over this period, the Nazi government was able to increase production of capital goods by about a third in those nine years—a large increase, particularly since new plant capacity was needed for this growth. Indicative of the policies which the government pursued is the fact that during the same period production of consumers' goods rose by only about 9 per cent. In 1929 about 61 per cent of the total net industrial product constituted capital goods; by 1938 the percentage had risen to 65 per cent—at the expense, of course, of the consumers' goods industries.[16]

TABLE 8

GERMAN INDUSTRIAL PRODUCTION, 1929, 1932, AND 1938*
MONTHLY AVERAGES (1928=100)

	1929	1932	1938
Total Production:			
Including Food Industries	100.9	58.7	124.7
Excludig Food Industries	101.4	54.0	128.0
Capital Goods	103.2	45.7	135.9
Consumers' Goods	98.5	78.1	107.8
Pig Iron	113.8	33.4	157.3
Steel Ingots	112.5	40.0	160.5
Metals (nonferrous)	98.2	60.8	141.5
Machines	103.8	40.7	147.7
Automobiles	91.1	28.6	200.7
Trucks	96.2	22.9	200.7
Motorcycles	104.2	18.1	72.4
Coal	108.3	69.0	122.2
Electric Power	117.9	90.4	205.9
Chemicals	91.8	50.9	127.0
Cotton	89.0	83.1	107.3
Linen	91.9	68.5	145.1
All Textiles	92.4	79.2	107.5
Shoes	103.8	85.3	118.5
Furniture	104.2	69.6	113.6
Radios	.....	119.2	327.8

*Source: *Statistik des In- und Auslands*, XIV (1939-40), 40.

The coverage of the statistics on which these indices were based is not uniform. In some industries statistical returns refer to the old German territory proper (including the Saar); in others the Sudeten area was included; again in others the Sudeten Area and Austria were covered. No information is available as to whether or not the figures for 1929 and 1932 were changed accordingly, in the case of industries in which returns for the Sudeten area and Austria were included.

To gauge more accurately the significance of the increase in the production of consumers' goods in the period ending 1938 the figures must be adjusted for growth in population. The per capita volume of production of consumers' goods rose only 3.5 per cent from 1929 to 1938. But it appears from Nazi publications that the net quantity of consumers' goods available for consumption in Germany increased more than this per capita rise suggests, because of a complete change in the international trade in such commodities. According to calculations of the official Nazi agencies, the surplus of exports over imports of industrial consumers' goods (not including agricultural products and foodstuffs), which amounted to 2.2 billions of reichsmarks in 1929, had almost completely disappeared by 1938.[17] In 1929 the consuming population consumed 8 to 10 per cent less industrial consumers' goods than were produced at home. Since the entire domestic production was available for consumption at home in 1938, per capita "consumption" rose accordingly.

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[16] *Vierteljahreshefte zur Wirtschaftsforschung*, XIV (1939-40), 21-26. This publication indicates that the statistics of production of consumers' goods underestimate the actual development, insofar as the production of some durable consumers' commodities—such as refrigerators, motorcycles, vacuum cleaners, etc.—is included in the statistics on investment goods. Since no further information is available, the figures in this chapter could not be adjusted for this.

For all these figures on production, agricultural commodities are included only insofar as they are processed in industries. Total agricultural production presents a picture similar to industrial production. On the basis of careful calculations and estimates, it can be assumed that, after taking into account the growth of population and the changes in international trade, agricultural production on a per capita basis was about 10 per cent higher in 1938 than in 1929.[18]

The Consumption of Consumers' Goods.—The 10 per cent per capita increase in production of consumers' goods and agricultural commodities refers to the total supply of such goods. Production, however, is not identical with actual consumption in the period under review. Actual consumption cannot be determined exactly from these figures,[19] since the Nazi government accumulated large war reserves, both for the civilian population and for the army. Stocks not only of industrial raw materials but also of industrial and agricultural consumers' goods were built up. Their magnitude is not known. If it were possible to do so, the quantities so withdrawn and stored should be deducted from annual production, in order to ascertain the changes in actual civilian consumption.[20] This adjustment cannot be made. If there was any increase in consumption from 1929 to 1938, it must, on account of these reserve accumulations, have been considerably smaller than the increase in supply.

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[17] The statistics relating to international trade in consumers' goods are not strictly comparable with the production statistics. The trade figures of the former do not include agricultural products, whereas production statistics include statistics on processed agricultural goods. If, by including more complete trade figures on agriculture, an attempt be made to correct for the incomparability of the trade and production statistics, the decline in the export surplus might be slightly lower by 1938 than the one given in the body of the text; but the difference would not be of great significance.

[18] *Wochenbericht des Instituts für Konjunkturforschung*, XI (1938), 285 ff.

[19] The statistics on the turnover in retail stores cannot be used, since too little is known about their bases or the methods used to compute them. Whether the figures are at all comparable over a period of years cannot be ascertained. The Institute for Business Cycle Research *(Wochenbericht,* XII, 1939, 39-40*)* indicates that the total turnover of foodstuffs in retail stores amounted to 15.5 billion reichsmarks in 1929, to 10.5 billion in 1932, and to 13.8 in 1938, and in textiles and clothes to 10 billion in 1929, to 5.9 in 1932, and to 10 billion in 1938. If these figures are roughly adjusted for the price changes that have occurred (by the use of the inadequate official cost-of-living index), but not for the growth of popula-

The German people as a whole obviously consumed more in 1938 than they did in 1932, before the feverish activities for rearmament had begun. The tremendous increase in the production of war materials and in industrial plant-capacity to produce them was made possible, not only without a reduction in the production of industrial and agricultural consumers' goods, but with an actual increase. Qualities deteriorated, some commodities were rationed towards the end of the period or disappeared completely, but consumption of the people as a whole was raised and became comparable with consumption in the best year in postwar Germany, 1929. Exact measurements are not possible, for the reasons frequently mentioned. Moreover, the inability to estimate the reserve stocks which the Nazi government piled up makes it impossible to say to what extent the German people were actually able to take advantage of the increased consumption possibilities. It is possible that these reserve stocks were very large, but it is also possible that their magnitude was purposely exaggerated for reasons of propaganda. We venture to conclude that, if there was any decline in consumption of industrial and agricultural consumers' goods from 1929 to 1938, it could not have been great.

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tion, the series for the three respective years runs as follows: for food: 15.5, 14.1, and 17.6; for textiles and clothes: 10, 8.6, and 13. The increase indicated in these figures is rather larger than that arrived at through the use of other statistical measures.

[20] It has frequently been suggested that further deductions should be made because of the increasing quantities of industrial and agricultural consumers' goods which the government bought up to satisfy the needs of a growing army. Such a deduction, however, does not seem justified for our purpose. The army which was being fed by the government constituted part of the German people; the quantities consumed by the army are part of total consumption. That the distribution of consumers' goods was changed thereby, that one part of the population benefited at the expense of the rest of the people, is part of the problem of the structure of consumption, an entirely different question from the one which concerns us here.

If we now recall the conclusions reached as to the change in aggregate income, we feel that the two sets of tentative figures and estimates complement each other, and tend to strengthen the contention that aggregate consumption in Germany increased a good deal during the period of German rearmament, and probably returned to about the predepression level.

Up to this point, the statistics used refer to indices of a part of total production. The development in individual industries and individual commodities cannot be gauged from these indices, which merge all commodities. For certain parts of consumption, particularly for food, more detailed information is available, which should be analyzed as a further check. The statistics on "consumption" of individual foodstuffs, per head of the population, throw some light on the change in the composition of consumption.[21] It would appear from them that, on the whole, in 1938 the people of Germany consumed, per capita, considerably more of a number of commodities and somewhat less of a few other commodities than in the depression year, 1932 (see Table 9). Per capita "consumption" declined between 1932 and 1938 in margarine, the production of which is based on imported raw materials, and in eggs, tropical fruit, and rice—all partly or wholly imported commodities. On the other hand, there were increases between 1932 and 1938, especially in wheat, flour, lean meat, butter, salt-water fish, sugar, cereals, coffee, and beer. Per capita "consumption" in 1938 compared with consumption in 1929 shows about the same tendencies; there was a reduction in the diet of the German people of some valuable foodstuffs (wheat flour, margarine, vegetable oils, milk, eggs, tropical fruits, and beer). There were increases in lean meat, butter, salt-water fish, potatoes, rice, cereals, and coffee.

Great caution is necessary in evaluating these figures. They were secured by computing total production, plus total imports, minus total exports. Production and imports were added, exports subtracted. We previously mentioned that there is no available record of how much of these commodities was actually distributed to the people and how much the government accumulated in its reserves. Furthermore, it is known that in a number of instances, and most particularly in agriculture, statistics on production were made much more complete than they had been before. The comprehensive government regulation of agriculture under the Nazi government (and the severe punishment of farmers found violating regulations) are responsible for much greater accuracy in submitting information on production of agricultural commodities to the government than was observed before. To this extent the apparent increase in production might be artificial. It is likely that the increase in per capita "consumption" of some of the commodities shown in the official statistics does not entirely represent an actual increase in human consumption, but is due, to a certain extent, to an increase in inventories of the canning industry, or of the warehouses of the army, or to an improvement in statistical methods.

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[21] In order to adjust German statistics for changes in the age distribution of the German people, statistical authorities have recalculated some of the per capita figures on the basis of "full consumer" *(Vollverbraucher)*. Since these corrections have not been made for all statistics used in this report, any attempt to operate in this study with the notion of *Vollverbraucher* would have introduced insurmountable difficulties.

TABLE 9

PER CAPITA "CONSUMPTION" OF FOODSTUFFS

1929, 1932, AND 1938*

	1929	1932	1938	1938 on a 1929 base	1938 on a 1932 base
Wheat Flour (kg.)	53.3	44.6	51.9	93.2	116.4
Rye Flour (kg.)	52.5	53.5	53.0	102.3	99.1
Lean Meat (kg.)	44.9	42.1	47.8	106.5	113.5
Lard (kg.)	8.2	8.5	8.4	102.4	98.8
Butter (kg.)	8.0	7.5	8.8	110.0	117.3
Margarine and Oil‡ (kg.)	10.4†	11.3	8.7	86.1†	77.0
Milk (liter)	117.0	105.0	112.0	95.7	106.7
Cheese (kg.)	.....	5.2	5.6	....	107.7
Eggs (number)	141	138	124	88.0	89.9
Salt Water Fish (liter)	9.2	8.5	11.9	129.3	140.0
Vegetables (kg.)	....	47.3	47.0	....	99.4
Potatoes (kg.)	172.0	191.0	183.0	106.4	95.8
Rice (kg.)	2.0†	2.9	2.4	120.0†	82.8
Sugar (kg.)	23.4	20.2	24.3	103.8	120.3
Leguminous Fruits (kg.)	2.0†	2.0	2.3	115.0†	115.0
Tropical Fruit (kg.)	7.8	8.0	7.0	90.0	87.5
Coffee (kg.)	1.9	1.6	2.3	121.1	143.8
Beer (liter)	88.6	51.4	68.6	77.4	133.5
Cigars (number)	107	85	131	122.4	154.1
Cigarettes (number)	520	483	676	130.0	140.0

*Sources: *Statistisches Jahrbuch für das Deutsche Reich*, LVI (1937), 362-363, and LVII (1938), 382-385; *Wirtschaft und Statistik*, XXI (1939), 463.

‡Including vegetable oils.

†1930.

Consumption tendencies are perhaps more adequately illustrated by the results of special inquiries made by the German Federal Statistical Office into family budgets for the two years 1927 and 1937. The results of these investigations, based on minutely planned inquiries into the consumption habits of a group of working-class families, present more direct evidences of changes in consumption (see Table 10). We have no way of knowing—particularly for the investigation conducted in 1937—whether the families whose budgets were examined were actually typical of the masses of the population; but since these family budgets represent data on actual consumption, they are very valuable for the purposes of this study. The two investigations are not strictly comparable, because the methods varied. Moreover, the 1937 inquiry was carried through by the German Labor Front, which may have used it for propaganda purposes. In an attempt to make the two investigations as comparable as possible, the group of families in the 1927 investigation was compared with the group of families in the later inquiry which, considering the change in the purchasing power of the currency, had about the same annual income to dispose of. Adjustment was also made for the difference in the average size of the families in the two years.

Certain divergences between these family budgets and the statistics on per capita "consumption" given above can be explained by the fact that consumption statistics refer to 1929, 1932, and 1938 (see Table 9), while the family budgets relate to 1927 and 1937. Except for a few commodities, such as meat, rice and sugar, the changes that have occurred between predepression days and the recent period are in the same direction in the two studies, but the extent of the changes is different in a number of instances. In view of the fact that the production statistics, on which the figures on per capita "consumption" are based, include reserve stocks which never entered actual consumption, and appear artificially higher because of perviously mentioned changes in statistical methods, the agreement between the two sets of data is, as far as general tendencies are concerned, quite considerable.

Consumption of rye bread in these working-class families rose 20 per cent between 1927 and 1937; consumption of white and whole wheat bread fell about 45 per cent. Consumption of butter rose about 15 per cent, and consumption of margarine fell very slightly. Consumption of milk fell about 15 per cent; eggs, about 40 per cent. Consumption of vegetables fell, consumption of potatoes rose; consumption of tropical fruits fell nearly 40 per cent and of beer nearly 60 per cent. Consumption of vegetable oils and fats rose about 25 per cent, in contrast to the general per capita trend of margarine and oil. Similarly, the consumption of fish fell 6 per cent, and the consumption of bacon and meat products fell by from 10 to 20 per cent, in contrast to the trend of total per capital consumption. Consumption of rice and sugar fell slightly, also against the trend.

TABLE 10

CONSUMPTION IN WORKING-CLASS FAMILIES BASED ON INQUIRIES INTO FAMILY BUDGETS, 1927 AND 1937*

	1927†	1937†	1937§	Percentage Change
Wheat and Rye Flour (kg.)	40.4	48.6	45.2	+11.9
Rye Bread (kg.)	262.9	339.9	316.1	+20.2
White and Whole Wheat Bread (kg.)	55.2	33.1	30.8	−44.2
Bread and Baked Goods (kg.)	334.2	385.1	358.1	+ 7.2
Meat (Beef and Veal) (kg.)	21.6	23.0	21.4	− 0.9
Meat and Meat Products (kg.)	133.7	117.4	109.2	−18.3
Bacon (kg.)	9.5	9.1	8.5	−10.5
Butter (kg.)	15.7	19.4	18.0	+14.6
Vegetable Oils and Fats (kg.)	6.3	8.5	7.9	+25.4
Margarine (kg.)	29.8	31.2	29.0	− 2.7
Milk (liter)	427.8	394.8	36.72	−14.2
Cheese (kg.)	13.0	15.6	14.5	+11.5
Eggs (number)	404	255	237	−41.3
Fish (kg.)	21.8	21.9	20.4	− 6.4
Vegetable (kg.)	117.2	117.8	109.6	− 6.5
Potatoes (kg.)	499.5	558.9	519.8	+ 4.1
Rice (kg.)	5.4	5.5	5.1	− 5.6
Sugar (kg.)	47.2	48.4	45.0	− 4.7
Tropical Fruit (kg.)	9.7	6.6	6.1	−37.1
Coffee (kg.)	3.3	4.1	3.8	+15.2
Beer (liter)	76.5	34.0	31.6	−58.7
Cigars (number)	128	127	118	− 7.7
Cigarettes (number)	450	541	503	+11.8

*Sources: "Die Lebenshaltung von 2,000 Arbeiter-, Angestellten- und Beamtenhaushaltungen," *Einzelschriften zur Statistik des Deutschen Reiches*, No. 22 (Berlin, 1932), I, 91, and *Wirtschaft und Statistik*, XIX (1939), 118 ff. and 323 ff.

†To correct for the change in purchasing power of the currency, the 1927 figures refer to the 2,500-3,000 reichsmarks income group, while the 1937 figures refer to those receiving 2,000-2,500 reichsmarks yearly.

§To make the size of families covered in the two studies comparable, the quantities consumed in 1937 by families of an average size of 4.2 persons have been reduced by 7 per cent to the 1927 average family size of 3.9 persons.

Certain important changes in the diet of the German people seem to be well established: potatoes, rye bread, and fish seem to have become more important; milk, meat, fats (except butter), white bread, tropical fruits, and eggs, less important. Whether this meant an actual decline in the nutrition value of the diet could only be determined by more specific analysis.[22]

How significant the deterioration in the quality of commodities has been cannot be ascertained. All statistics of German consumption tacitly assume that qualities and standards did not change; but there is little doubt that in a number of instances commodities in 1929 or 1932 are not comparable, without qualification, with the commodities bearing the same name in 1938. Some figures have been published concerning the raw materials for the clothing industries.

The quality of textiles of all kinds available for the clothing industries increased from 504,000 tons in 1932 to 767,000 tons in 1938 (see Table 11). Again it must be emphasized that actual consumption in these textiles must have been smaller, in view of the fact that a part had to be used to build up reserves. These textile raw materials were partly produced at home, partly imported from abroad. According to these official statistics, the share of domestically produced materials in total textile supplies increased from 7.5 per cent in 1932 to 23.4 per cent in 1936, and to 34.1 per cent in 1938. The importation of cotton increased only slightly from 96,000 tons in 1932 to 101,000 tons in 1938. The import surplus and domestic production of wool remained almost stable from 1931 to 1938. The considerable increase in the supply of textile raw materials was largely made possible by increased production of domestic substitutes, which were heavily subsidized by the government. The quality and durability of clothes manufactured out of these substitutes are much inferior to those manufactured out of genuine cotton, wool, etc.

In the struggle for larger and better supplies, higher salaried employees, government officials, and entrepreneurs were in a much better position than the wage earners. The better qualities of clothes, for example, which certainly sold at higher prices, presumably went to the upper income groups, who could more easily afford to buy them. The wage earner, with his lower income, must have bought the cheaper commodities made of "new" domestic supplies. Since *ersatz* clothes were inferior to "real," genuine clothes, he indirectly paid more than he would have spent if the old qualities had been more plentiful.

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[22] J. H. Richter of the United States Department of Agriculture has recently published a study of the two sets of family budgets (*Foreign Agriculture,* VI, 1942, 77 ff.). Emphasizing the differences in the two inquiries, he came to the conclusion that "it appears that the fuel value of per capita food consumption in the worker's families polled in 1937 was five percent below that of the consumption in the families polled in 1927-28, whose average real income was about 25 percent higher. . . . It would be a mistake to assume that food consumption in Germany had been inadequate for several years before the outbreak of the war."

TABLE 11

Textiles—Supplies for Clothing Industries, 1932-1938*

	1932	1933	1934	1935	1936	1937	1938
Total Supplies (1,000 tons).........	504	583	578	601	547	673	757
Domestic Production (1,000 tons)...	38	42	59	84	128	200	258
Percentage of Domestic Production to Total Supplies (per cent)......	7.5	7.2	10.2	14.0	23.4	29.7	34.1

*Source: *Wochenbericht des Instituts für Konjunkturforschung*, XII (1939), 65. The figures are based on domestic production plus imports minus exports. Included are: cotton, wool, flax, rayon, silk, and textile fibers.

Changes in the Satisfaction of Collective Needs. It becomes quite obvious from the family budgets and the statistics on per capita "consumption" that a change in the diet of German families took place in the period of war preparation, either because of a change in habits or in price relationships or because of government regulations. It is likely that the composition of family expenditure, excluding food, also changed, although available information does not make it possible to trace those changes in detail. The consumption level of many workers' families depended less in 1938 than previously solely on the income of the head of the family. As full employment was achieved, more than one member of the family worked—sometimes all the members. Work and income became steadier, and in many families real earnings rose.

Certain family needs or needs of a collective nature could now be satisfied more easily than in 1932 or even in 1929. The demand for new and larger apartments rose; although large numbers of new housing units were built, they were not sufficient to meet the increased demand, since the need for raw material and skilled manpower for military purposes obviously imposed limitations on the erection of private apartments. Although the increase during the period was so large that in every year since 1934, except in 1935, more than twice as many apartments were built as in 1932, only in one year—in 1937—did the number of new apartments built reach the number of new apartments erected in 1929.[23] There was a considerable expansion in the sale of furniture and household goods of all kinds.[24] The necessary expenditures were made possible not only by the increase in individual incomes but also by the marriage loans made by the Treasury to prospective new families as part of the official campaign for more and larger families. These loans totaled 600 to 700 million reichsmarks by 1938.[25] A good portion of these loans were never repaid; they represented additions to total consumption through collective action. Another example of satisfaction of individual wants through collective action is the Winterhilfe. Official statistics show that this organization distributed over 400 millions of reichsmarks in money, clothes, foodstuffs, etc., in the winter months of 1937-1938; about nine million persons are reported to have benefited from these distributions.[26] It is difficult, however, to evaluate the real significance of that institution. Not only were its funds partly collected from the workers themselves, but the aid extended to the poor by public relief agencies declined somewhat between 1929 and 1937.[27] No information is available to what extent the Winterhilfe has taken over some of the functions usually performed by these public agencies.

There are other indications of new developments in consumption patterns and in the satisfaction of collective needs.[28] The number of subscribers to the radio system increased two and a half times from 1933 to 1939 (see Table 12); the production of radio products practically tripled (see Table 8), presumably partly as a result of military needs.

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[23] The number of apartments built in 1929 was 338,802; the numbers from 1932 to 1938 were as follows: 159,121; 202,113; 319,439; 263,810; 332,370; 340,392; and 305,526. Included in the figure for new apartments are apartments that were gained by remodeling old buildings: see *Statistisches Jahrbuch für das Deutsche Reich,* L (1931), 133, and *Wirtschaft und Statistik,* XIX (1939), 422.

[24] *Statistik des In- und Auslands,* XIII (1938-39), 109, and *Halbjahresberichte zur Wirtschaftslage,* XIV (1939-40), 51-52.

[25] *Wirtschaft und Statistik,* XIX (1939), 110.

[26] *Statistisches Jahrbuch für das Deutsche Reich,* LVII (1938), 596-597.

[27] *Wirtschaft und Statistik,* XVII (1938), 469.

[28] The very large increase in registration of automobiles and motorcycles cannot be used in this connection since it is not possible to eliminate the number of army cars and trucks which are included in those statistics.

The motion picture attendance increased:[29] in 1932 attendance was large enough for each person in Germany to have gone to the movies about four times a year; in 1937 each German went six times (against about five and one-half times in 1928).[30] In 1937 over eight million people participated in the inexpensive trips organized by the Nazi "Strength through Joy" organizations.[31] Both the number of occupied beds in hotels and the tourist traffic increased about two and a half times from 1932 to 1938.[32] And, finally, savings increased between 1932 and 1938 (see above, p. 346).

TABLE 12

SUBSCRIBERS TO THE GERMAN RADIO SYSTEM, 1933-1939*

January 1	Number of Subscribers	Percentage Increase over previous year
1929†	2,827,000	....
1933	4,307,722	8.2
1934	5,052,607	17.3
1935	6,142,931	12.6
1936	7,192,952	17.1
1937	8,167,957	13.6
1938	9,087,454	11.3
1939	10,821,858	19.1

*Sources: *Wochenbericht des Instituts für Konjunkturforschung*, XII (1939), 181; for 1929: *Wirtschaft und Statistik*, X (1930), 712. Since January 1, 1936, including the Saar. Since January 1, 1939, including the Sudeten area, but not Austria.

†June 30, 1929.

All these changes point to certain changes and possibly improvements in consumption patterns. They *may* be significant, because they suggest that a type of expenditure became possible which a large number of people or families cannot afford unless their urgent necessities of life have been satisfied; yet a much more detailed investigation would be necessary before definite conclusions of such a nature could be established.[33] Further information, for instance, would be needed to indicate to what extent the "Strength through Joy" trips were merely substitutions for previously unrecorded trips; to what extent they represented an increase in trips; and to what extent they constituted a net increase in the income of respective families, since "Strength through Joy" was financed out of contributions to the Labor Front, to which every employed person was forced to belong. Finally, it would be necessary to find out whether, and to what extent, the increase in savings had been caused by special reasons not associated with a rising standard of living; for instance, by the inability, due to shortages, to spend part of the income on those commodities for which a real desire existed.

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[29] *Wochenbericht des Instituts für Konjunkturforschung*, XII (1939), 60. These figures refer to Germany without Austria and the Sudeten area.

[30] The figures refer to motion picture attendance from April 1 (1932, 1937, and 1928) to March 31 of the succeeding year.

[31] *Statistisches Jahrbuch für das Deutsche Reich*, LVII (1938), 683.

[32] *Ibid.*, p. 74, and *Wirtschaft und Statistik*, XIX (1939), 372.

[33] It should be mentioned in this connection that the increase in radio subscribers and the increase in motion picture attendance are both indirect elements in the propagandistic control over the mind of the German nation undertaken by the Nazi government.

THE LEVEL OF CONSUMPTION BEFORE THE OUTBREAK OF WAR

On the basis of the various indications of changes in income and consumption in Germany during the period of rearmament which have been discussed in this chapter the following conclusions seem justified.

Rearmament in Germany and the enlargement of productive capacity from 1932 to 1938 were made possible by a very large increase in the employment of all the productive forces of the country. The social product rose considerably in these six years, increasing by about 70 per cent from 1932 to 1938. If price changes are eliminated, national income in 1938 was almost 30 per cent higher than in 1929.

The percentage of national income that was diverted to military purposes rose from year to year. Wage and salary earners, including those who were unemployed and pensioned, did not receive as large a share in the national product in 1938 as in 1929. Although their part of the national income declined from 68.8 to 63.1 per cent during this period, all the available information tends to indicate that the real income and consumption of the masses of the German people improved greatly in comparison with 1932, and reached approximately the 1929 level of income and consumption.

These conclusions must be understood within the framework of difficulties and qualifications which any such study erects about itself. The comparisons, for example, involve an entire decade during which many changes and developments took place for which adequate adjustment is impossible. When, therefore, we say that the consumption of the German people in 1938 reached approximately the 1929 level, we can only mean that, despite numerous changes in detail, the general magnitudes—insofar as consumption is measurable—were about the same. In carefully evaluating the available data every possible attempt was made to take into account the inadequacy of the statistics, the changes in international trade, the growth in population, and the accumulation of commodities in reserve stocks. The fact that aggregate income of all German consumers is not known, and that complete statistics for all branches of civilian consumption are not available, made it necessary to base our conclusions upon the income received by all insured employed wage and salary earners (who constitute the bulk of all consumers), and upon information concerning physical consumption of a large percentage of all consumers' goods. It was impossible, of course, to follow through all the changes which took place in the composition of consumption, changes which reflect variations in consumer habits, deterioration in quality, the beginning of rationing, and the greater scarcity of certain goods, such as imported commodities of various kinds.

How was it possible for the German people to raise its level of consumption during the most crucial period of rearmament, in spite of the huge output of war material? The explanation is not far to seek. The German economy was put to work at full capacity. In 1932 only about two thirds of the labor force were gainfully occupied; even in 1929 considerable unemployment obtained. In 1938, on the other hand, practically every employable man and many women had jobs. Since the population as a whole increased and since numerous people worked who had not worked before, the total number of wage and salary earners in 1938 was about 60 per cent greater than in 1932 and about 14 per cent larger than in 1929. The daily hours of work increased considerably compared with 1932; compared with 1929, they were longer in the capital goods industries. In addition, the work of the German worker became more productive. Although labor productivity in industry as a whole hardly changed from 1932 to 1938, it had risen about 10 per cent from 1929 to 1932.[84]

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[84] *Vierteljahrshefte zur Wirtschaftsforschung*, XIV (1939-40), 9.

During the period of rearmament, various methods were used to control civilian consumption in Germany and to prevent it from reaching a volume which would have endangered the government's underlying political and military plans. Income available for expenditure on consumption was deliberately maintained within certain limits. The allocation of raw materials and manpower was so ordered that the production of consumption goods would correspond, by and large, with the change in purchasing power used for consumption purposes. Credit and investments were so directed that the consumers' goods industries could not increase their capacity beyond definite limits. Imports were so regulated that certain commodities or certain qualities of commodities which were considered undesirable could not be obtained. Prices were supervised and controlled, lest an excess of demand over supply in certain commodities lead to price movements which might have endangered the desired balance among the various parts of the economy.

Changes in the quality and structure of consumption which were considered necessary were not left to the accident of supply and demand, but were deliberately planned. Consumption had to be diverted away from commodities which were scarce, which were needed for military purposes, which were required for accumulation as reserve, and which would have necessitated an undesirable outlay of foreign exchange. It had to be directed towards commodities, the production of which appeared economically and politically advisable. The Nazi party machinery and the well-nigh limitless administrative power of the government were employed with great boldness to make these policies effective. Their shrewdly devised system of propaganda proved as efficient in this respect as it has in so many others.

Chapter 11

Conclusion

THIS VOLUME represents an attempt to describe the organizational machinery and the system of controls developed by German Fascism for the conduct of economic affairs. The first chapter, an end-product of all the research done in connection with this project, called attention to the most important changes wrought by Fascism in the economic system inherited from the Weimar Republic—a system in which competition, monopoly, and government ownership operated side by side, giving rise to many conflicting tendencies. The remaining chapters described the details of the mechanism of control in the Nazi economy. We are well aware of the limitations of our study, which presents only the bone structure of Germany's Fascist economy. The total culture complex within which the economy functioned, its psychological atmosphere, the day-to-day human relationships which it encouraged, have not been discussed. These omissions were not a matter of choice but of necessity. Only someone who has observed the economy at work, who knows from personal experience how it functioned, would be in a position to describe it as a going concern. After the war, when the German archives are open to public scrutiny, when independent scholars investigating Fascism are able to interview those who lived through it, and perhaps those who participated in it, the attempt to comprehend the Fascist economy as a functioning structure will be more fruitful. None of the revulsion that Fascism inspires should blind us to the opportunity that will then present itself. Our horror and indignation at the insufferable brutality of Nazism, our complete rejection of all it stands for, should not obscure the *possible* importance of the economic experiments carried out under Fascist auspices, experiments which may take on new value and significance in a different political atmosphere. At a time when in most countries the need for government intervention in economic affairs is so keenly felt by many, and so bitterly opposed by many others, a complete understanding of the experience which German Fascism had with planning is bound to prove instructive.

In the six years that elapsed between the Fascist victory and the outbreak of war, Nazism erected a system of production, distribution, and consumption which defies classification in any of the usual categories. It was not capitalism in the traditional sense; the autonomous market mechanism so characteristic of capitalism during the last two centuries had all but disappeared. It was not State capitalism; the government disclaimed any desire to own the means of production, and, in fact, took steps to denationalize them. It was not socialism or communism; private property and private profit still existed. It was, rather, a combination of some of the characteristics of capitalism and a highly planned economy. Without in any way destroying its class character, a comprehensive planning mechanism was imposed on an economy in which private property was not expropriated, in which the distribution of national income remained fundamentally unchanged, and in which private entrepreneurs retained some of the prerogatives and responsibilities which were theirs under traditional capitalism. This was done in a society which was dominated by a ruthless political dictatorship.

In considering the changes wrought by the Nazis one thing should be kept clearly in mind. Economists make use of a conceptual apparatus originally designed to describe the theory, and to some extent the practice, of early capitalism. Private property, private profit, competition, and many other concepts used throughout this book, reach far back into the past and carry into the present suggestions of former meanings which are misleading. To be at all useful as descriptive categories, these terms are in need of constant redefinition as the economic system they are meant to picture undergoes significant change. The changes introduced by the Nazis are a case in point, and unless one is careful in using these old concepts to describe the phenomena of the Nazi economy, there is bound to be misunderstanding, and much superficial generalizing that is more dramatic than it is accurate. The task of redefining these concepts adequately must await a more intimate acquaintance with the actual workings of Fascism. In the present state of knowledge we can only suggest some of the more obvious aspects of the problem. The Nazis, we indicated, maintained the institution of private property with many of its former rights and privileges. Property, for example, continued to be a source of large and unearned income. But ownership of property no longer carried with it the discretionary right to interfere in the productive process. Private profit continued to exist as one of the important claims on national income. But the profit motive and competition ceased to perform the functions assigned to them by traditional capitalism. Instead of their former roles in the production and investment process they now functioned primarily as energizers, to stimulate businessmen to extend themselves to improve the productivity of their enterprises. All these developments meant that the role of the entrepreneur in the economy had changed. The daring entrepreneur of the nineteenth century, who risked his own capital in pursuit of high profits, was already on his way out in the highly "organized" capitalism of pre-Nazi Germany. German Fascism eliminated him completely, and in his stead called into being an entrepreneur who could exercise his initiative and accumulate wealth, but who was compelled to operate strictly within the limitations of a government determined program of economic activity. "Private enterprises," declared a semiofficial publication in 1937, "have become public trusts. The State is, for all practical purposes, a partner in every German enterprise. . . . When the enterprise is a public trust, its survival, and the profitability of the invested capital become maters of public interest."[1] If the Nazi entrepreneur could not invest freely, he was compensated by the fact that full employment and the willingness of the government to subsidize submarginal producers, made the profitability of his enterprise much more secure than it had ever been before.

The Nazis like to make much of the security that they brought the German people. Insofar as the economic aspect of the problem is concerned, it should be admitted that, for the time being, frenzied preparation for war made the entrepreneur more secure and assured the worker of permanent employment and income. But security has wider connotations. Where political security has been abolished, where every man and woman is subject to the lawlessness and caprice of a ruthless Fascist dictatorship, the values in the lives of men have changed completely. When every shred of personal freedom and human decency has been lost, it becomes a travesty to talk of "security."

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[1] *Der Deutsche Volkswirt*, XI (1937), 2191-2192.

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